

IMPACT ASSESSMENT TOOLKIT

*A guide to undertaking an Impact Assessment
(IA) and completing the IA Template*



MAKING LIFE AS
SIMPLE
AS POSSIBLE

IMPACT ASSESSMENT (IA) TOOLKIT

CONTENTS

Chapter 1: INTRODUCTION	6
What is the IA Toolkit?.....	6
Chapter 2: PROPORTIONATE ANALYSIS IN THE IA PROCESS ..	9
Overview of the IA Process	9
Applying the Principle of Proportionality	11
Chapter 3: COMPLETING AN IA TEMPLATE: HEADING INFORMATION.....	13
Chapter 4: COMPLETING AN IA TEMPLATE: INTERVENTIONS AND OPTIONS SECTION	15
Summary: Intervention and Options	15
Rationales for Intervention and Policy Objectives.....	15
Market Failure.....	16
<i>Public goods</i>	16
<i>Externalities</i>	17
<i>Imperfect information</i>	17
<i>Market power</i>	18
Government Failure	18
Equity and Other Social Welfare Objectives	18
Existing Policy Levers	19
Cumulative Impact	20
Policy Options.....	20
<i>Regulatory and non-regulatory options</i>	21
Post-Implementation Review at Different Stages in the IA Process	22
<i>IA for policy development – setting out PIR plans</i>	23
<i>After a PIR is carried out</i>	24
Ministerial Declaration	24
Chapter 5: COMPLETING AN IA TEMPLATE: ANALYSIS AND EVIDENCE	26
Introduction: Analysis and Evidence	26

Cost and Benefits to be Included in the Analysis and Evidence Page	27
Key Assumptions, Sensitivities and Risks	31
One-In, One-Out rule (OIOO)	31
Chapter 6: COMPLETING AN IA TEMPLATE: IMPLEMENTATION, ENFORCEMENT AND WIDER IMPACTS	33
Specific Impact Tests	36
Chapter 7: COMPLETING AN IA TEMPLATE: EVIDENCE BASE	38
Evidence Base.....	38
<i>Evidence base for the PIR IA</i>	<i>40</i>
<i>Proportionality and likely benefit.....</i>	<i>41</i>
<i>Desktop reviews</i>	<i>43</i>
<i>High-intensity PIRs.....</i>	<i>44</i>
<i>Bundling</i>	<i>45</i>
<i>Lessons learned and further actions.....</i>	<i>45</i>
Chapter 8: COMPLETING AN IA TEMPLATE: ANNEXES	47
Annex 1: Post-Implementation Review Plan.....	47
Other Annexes.....	48
Annex 1: PUBLICATION AND QUALITY ASSURANCE OF IMPACT ASSESSMENTS	49
A1.1 Publishing IAs at Different Stages.....	49
A1.2 Quality Assurance and Clearance of IAs.....	50
<i>The Regulatory Policy Committee</i>	<i>51</i>
<i>Other external stakeholders</i>	<i>52</i>
Annex 2: VALUATION OF COSTS AND BENEFITS OF THE POLICY OPTIONS	53
A2.1 Valuing Costs and Benefits	53
A2.2 Coverage of Cost and Benefits	54
A2.3 Estimating Costs	55
A2.4 Estimating Benefits	57
A2.5 Sectors and Groups Affected	58
A2.6 Discounting Costs and Benefits Occurring Over Time	59
A2.7 Proportionate Analysis	61
Annex 3: KEY ASSUMPTIONS, SENSITIVITIES AND RISKS.....	63
A3.1 Risk, Uncertainty and Unintended Consequences	63
A3.2 Testing Your Assumptions	64

Annex 4: IMPLEMENTATION AND ENFORCEMENT	66
A4.1 Implementation.....	66
A4.2 Enforcement.....	66
<i>Hampton review principles</i>	67
<i>Macrory review: sanctions</i>	67
<i>Who will enforce the policy?</i>	68
Annex 5: SPECIFIC IMPACT TESTS.....	70
A5.1 Statutory Equality Duties Guidance.....	70
A5.2 Competition Assessment.....	70
A5.3 Small Firms Impact Test.....	71
A5.4 Greenhouse Gas Impact Assessment.....	71
A5.5 Wider Environmental Impact Test	72
A5.6 Health and Well Being.....	73
A5.7 Human Rights	73
A5.8 Justice Impact Test	73
A5.9 Rural Proofing	74
A5.10 Sustainable Development Impact Test.....	75
<i>Sustainable development</i>	75
<i>Purpose of the sustainable development impact test</i>	75
<i>Applying the test</i>	75
<i>Further help</i>	75
Annex 6: EU NEGOTIATIONS/PROPOSALS	76
A6.1 Producing UK IAs for EU proposals	76
<i>Baseline and policy options in IAs transposing EU legislation..</i>	76
A6.2 Using and influencing European Commission IAs.....	77
Annex 7: FRONT LINE PUBLIC SERVICES	79
A7.1 Overview	79
A7.2 How Costs Should be Calculated.....	79
A7.3 How to Demonstrate a Burden has been Mitigated.....	79
A7.4 Differentiating Performance Management Burden and Regulation .	80
A7.5 When Public Sector Regulatory Costs Required for an IA	81
<i>Helpful examples as a guide</i>	82
Annex 8: OTHER ISSUES IN POLICY DEVELOPMENT	83
A8.1 Non-Departmental Public Bodies	83

A8.2 Supply Chain Analysis.....	83
<i>Understanding the impact of policy on business</i>	84
<i>Mapping supply chains</i>	84
A8.3 EU Services Directive/Provision of Services Regulations Text	85
<i>Does your proposal have an impact on service providers?</i>	85
Annex 9: Evaluation	86
<i>Evaluation and Post-Implementation Review</i>	86
<i>The Magenta Book</i>	86
<i>Why evaluate?</i>	86
<i>Carrying out an evaluation</i>	86
Annex 10: CONTACT DETAILS	87
Annex 11: IMPACT ASSESSMENT FLOWCHART	88
Annex 12: GLOSSARY OF DEFINED TERMS AND ACRONYMS	89

IMPACT ASSESSMENT (IA) TOOLKIT

Chapter 1: INTRODUCTION

What is the IA Toolkit?

- 1.1. The IA Toolkit is a guide to undertaking an IA and filling out the IA Template. The completion of an IA is consistent with the policy appraisal process as set by the '[Green Book – Appraisal and Evaluation in Central Government](#)' and its associated supplements. Links to other sources are provided throughout the IA Toolkit where more detail may be needed.
- 1.2. The IA Toolkit sets out:
 - possible rationales for government intervention in the economy;
 - how to apply the principle of proportionality to the analysis in an IA;
 - why it is important to value the costs and benefits of options and provides an introduction to how to approach valuation;
 - how to deal with risk (including public risk¹), uncertainty and unintended consequences;
 - information you need to complete an IA at different stages of policy development, including Post-Implementation Review (PIR);
 - departmental guidance on Specific Impact Tests; and
 - information on approval and publication of IAs.
- 1.3. The [IA Guidance](#) should be read with the IA Toolkit and sets out:
 - what an IA is;
 - the types of intervention for which an IA is required; and
 - when an IA must be prepared and published.
- 1.4. In addition, the following material will support you in preparing an IA:
 - [IA Template](#);
 - [Quick-Start Guide](#) about how to fill in each field of the IA Template; and
 - [IA flowchart](#), which provides further information on the stages of an IA.

¹ Risks that may affect any part of society and to which government is expected to respond.

- 1.5. Key to completing an IA is the estimation of the impacts of the proposals on the UK as a whole, through appraisal of the costs and benefits. This toolkit includes a summary of the approach to appraisal and evaluation in monetising, as far as possible, the costs and benefits of policy proposals. The approach summarised here draws on, and is consistent with, the [Green Book](#) and its supplementary guidance and with the policy evaluation methodology as set out in the Magenta Book. More information on these techniques is available from the Green Book web site or by contacting HM Treasury's Economics Green Book branch by emailing greenbook@hm-treasury.gov.uk.
- 1.6. The IA Toolkit is not an exhaustive guidance. If you cannot find the answer you need, please discuss with your departmental economists and Better Regulation Unit advisers, or contact the Better Regulation Executive (BRE).
- 1.7. The BRE will amend the IA Toolkit periodically to reflect changes and analytical advances so you should check back periodically to ensure that you are using the most up to date advice.
- 1.8. Tax and Regulation are different levers on behaviour. Although IAs are published for tax measures which have a significant impact on business administration costs, the tax itself is not a trigger for IA publication, nor are the projected exchequer effects of the tax measure recorded in the IA. Details of tax changes and economic analysis are published instead in the 'Budget Red Book'.
- 1.9. If officials in another Department want to include the possibility of tax as an alternative to Regulation, then they should engage with HM Treasury at an early stage, and, providing HM Treasury agree, take the proposal out to a joint consultation using an IA, with HM Treasury engagement in the design of the consultation. Should tax turn out to be a favoured option, the proposal should be passed over to HM Treasury (at which point HM Treasury and HM Revenue & Customs will subject the proposal to the Tax Impact Assessment process).
- 1.10. Departments should follow the IA Guidance and the IA Toolkit when they prepare IAs, other bodies such as Executive Agencies and regulators that make regulations in relation to their statutory and other responsibilities are also encouraged to complete IAs, adapted to their circumstances where this is appropriate (see [Annex 8](#) for further details).
- 1.11. The main body of the IA Toolkit outlines how to complete an IA Template. Specific detail, such as comprehensive or methodological information that will allow you to complete the analysis, is set out in the Annexes.
- 1.12. The structure of the IA Toolkit is as follows:

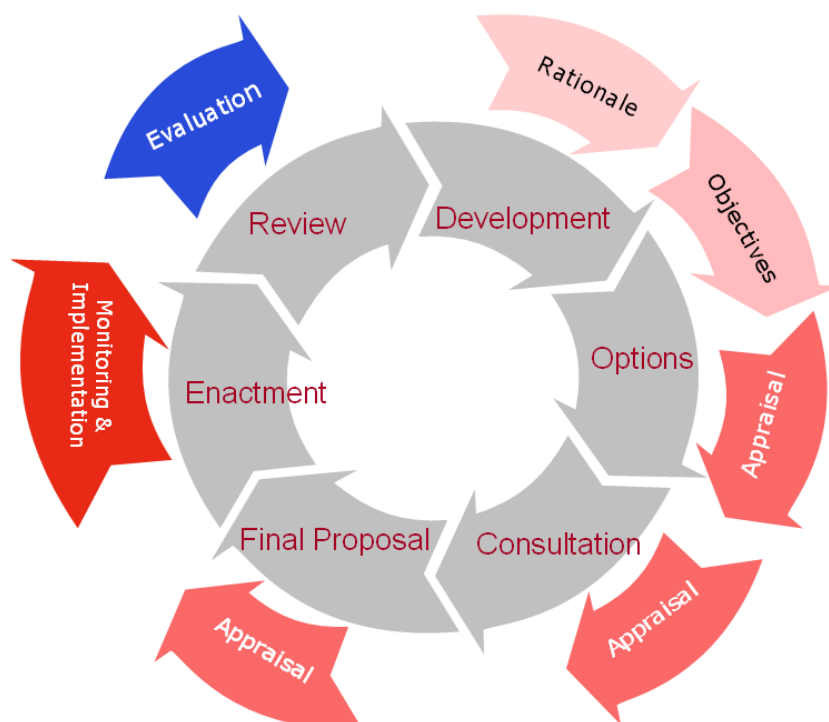
- [Chapter 2](#) outlines how the principle of proportionality applies to the analysis of an IA throughout the process;
- Chapters 3 to 6 outline how to complete the IA Template summary sheets, including:
 - heading information;
 - interventions and options;
 - analysis and evidence; and
 - implementation, enforcement, wider impacts;
- [Chapter 7](#) sets out the recommended content and structure of the Evidence Base;
- [Chapter 8](#) deals with Annexes in the IA Template, in particular Annex 1, the PIR plan;
- Annexes provide more detailed information on the following issues:
 - [Annex 1](#): publication and quality assurance of IAs;
 - [Annex 2](#): valuation of costs and benefits of the policy options;
 - [Annex 3](#): key assumptions, sensitivities and risks;
 - [Annex 4](#): implementation and enforcement;
 - [Annex 5](#): guidance to Specific Impact Tests;
 - [Annex 6](#): IAs for EU negotiations and proposals;
 - [Annex 7](#): front line public services;
 - [Annex 8](#): other issues in policy development;
 - [Annex 9](#): evaluation;
 - [Annex 10](#): contact details;
 - [Annex 11](#): IA flowchart; and
 - [Annex 12](#): glossary of defined terms and acronyms.

Chapter 2: PROPORTIONATE ANALYSIS IN THE IA PROCESS

Overview of the IA Process

- 2.1 Impact Assessment is a continuous process, compatible with the Green Book policy appraisal cycle. This should help you fully think through the consequences of possible and actual government interventions: from the early stages of identifying a policy challenge; through the development of policy options, public consultation of those options, final decision-making; and on to the review of the preferred option's implementation. Review should be carried out to provide the basis for subsequent policy changes and should help identify new policy challenges (perhaps arising from unintended consequences of the intervention itself), before the policy development process begins again.
- 2.2 **The stages in the IA process** are fully set out in the IA Guidance and summarised below. See the [IA flowchart](#) below for an 'at a glance' view of the IA process.
- 2.3 The stages in the IA process may be repeated, and therefore may not always be followed sequentially. They are consistent with the broad stages of the policy-making cycle known as **ROAMEF** (Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback), as set out in the [Green Book](#). The recommended level of analysis at each stage is also set out.

Figure 1: key points in the Impact Assessment process



- **Development stage:** This stage should focus on the definition and assessment of the policy challenge, the rationale for government intervention, the identification of policy objectives and the gathering of evidence.
- **Options stage:** This stage should focus on the identification and development of options that may address the policy challenge, and the testing of these options through engaging with a wide range of interested parties ahead of [formal consultation](#). At this stage a qualitative discussion of costs and benefits is a minimum requirement. Also, there should be initial estimates of costs and benefits associated with the different options. You should aim to identify which options would maximise the positive economic, social and environmental impacts and minimise the negative ones.
- **Consultation stage:** This stage refers to when a public consultation is undertaken, which may be a formal written consultation. This stage should focus on firming up the options considered and the analysis to inform them, ensuring that there is adequate quantification of costs and benefits of each option. It is important that consultation is as broad as possible. It should cover all of the relevant stakeholders and not just the most familiar ones. The Risk and Regulation Advisory Council's [risk landscape tool](#) can help to identify the groups, organisations that have influence on the issue.
- **Final Proposal stage:** This stage focuses on the costs and benefits of the preferred option (the 'proposal'). It should set out the [PIR](#) plan which outlines when and how the measure will be reviewed.
- **Enactment stage:** This stage requires revisions to the final proposal stage IA to reflect the final contents of the Act, Statutory Instrument or other regulatory measure².
- **Review stage:** This stage is required at PIR stage. A PIR IA will evaluate the impact of the implemented policy, including any potential amendments to the policy objectives or its implementation recommended as a result of the review. The PIR IA Template is slightly different from the previous stages.

2.4 Whilst IA is a continuous process, there are certain points or stages within this process where an IA must be formally produced and **published**. These are:

- **consultation stage:** if a public consultation is undertaken the IA must be published alongside the consultation document;

² Note that an implemented regulatory measure may include alternatives to classic regulation, for example a voluntary code of practice. Where Regulation is not formally enacted the Impact Assessment must still be re-published to reflect the final impact of the implemented policy.

- **final proposal stage:** first when the Government announces its firm position on a single policy option (this will often be when it publishes its response to the consultation), or again when the proposal enters Parliament;
- **enactment stage:** when the legislation is enacted (reflecting any changes that have been introduced during the Parliamentary process);³ and
- **review stage:** after a PIR is carried out.

The process to publish an IA, and the associated quality assurance process, is set out in [Annex 1](#).

Applying the Principle of Proportionality

- 2.5 Proportionality underpins all aspects of the policy making and IA process, including the choice of appropriate interventions, gathering data, the depth of analysis in conducting appraisal (cost-benefit analysis), examination of risks, and PIR.
- 2.6 As you progress through the policy making process and develop the accompanying IA for each stage, it is expected that the quality of data being used and depth of analysis should be refined to make it more specific to the proposals, and to improve its quality and accuracy. Proportionality should guide how much effort and resources should be applied at each step of completing an IA, in particular the estimation of cost and benefits, and the depth of analysis of a PIR.
- 2.7 The principle of proportionality is not used to guide whether an IA should be undertaken or a PIR carried out, only the scale of effort to complete it (see [IA Guidance](#) for when an IA must be completed).
- 2.8 In determining the proportionate approach to completing an IA, consider the following questions, along with the Specific Impact Tests:
- What is the scale of the problem identified and the ambition of the policy objective?
 - How clear-cut is the case for government intervention?
 - What is the likelihood of unintended consequences?
 - How clear is the link between the proposed intervention and the intended outcome?
 - Are there groups who will be particularly affected by the policy?
 - Are there key stakeholders calling for/against action?
 - How sensitive is the policy likely to be?
 - Do changes to one variable tip the outcome from a (slightly) positive outcome to a (slightly) negative one? Such variables

³ See footnote 2 above.

would most likely need additional consideration as it could sway the policy decision.

- 2.9 For low-risk or low-impact interventions, answering all these questions might be disproportionate. However, all IAs are expected to cover the first three questions at least.
- 2.10 For **emergencies** (e.g. the closure of an industry for public health reasons), good policy development processes would include assessing the impacts of proposals, at least, within a few days. This is to help ensure that a disproportionate approach is not being undertaken. Moreover, where a Department is acting using the precautionary principle, some element of cost-benefit analysis should be undertaken. Action should only be pursued after due consideration of other alternatives and based on a clear rationale for intervention, possibly including the extent of public concern to a perceived crisis where this concern can manifest in material effects. Analysis should be carried out in a timely manner and the policy reviewed to see if it is working as intended. The principle of proportionality will guide how much analysis is undertaken in the time available.

[Back to contents](#)

Chapter 3: COMPLETING AN IA TEMPLATE: HEADING INFORMATION

Title: Lead department or agency: Other departments or agencies:	Impact Assessment (IA)
	IA No:
	Date: 01/01/2010
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries:

- 3.1 At the heading of the IA you must include the **title** of the IA. We recommend using a title that is clear and easily understood by stakeholders and that refers, where relevant, to any existing legislation or Regulation to which the IA relates.
- 3.2 Provide the name of the **lead department or agency** leading the development of the policy/legislation.
- 3.3 Name the **other departments or agencies** involved where a piece of legislation implements policies owned by more than one Department or agency. As the IA is drafted you must also specify who is responsible for parts of the evidence and analysis in the IA.
- 3.4 The **IA number** in the IA template will be based on the Department's acronym and a four-digit number. For instance, an IA for the Department of Business Innovation and Skills could have the following IA number: BIS1234. The IA number will remain constant for all stages of the policy development process and different policies cannot have the same IA number.
- 3.5 Where an IA is published (see [Annex 1](#) – Publication and Quality Assurance) the **date** must be the date on which the IA is published. For IAs which are not published, give the date the IA is completed.
- 3.6 You need to select the relevant **stage** from the drop down menu. [Chapter 2](#) above provides an overview of the stages in the IA process.
- 3.7 From the drop down menu specify the **source of intervention**, which is the origin of the regulatory obligation. Options are:
 - **domestic:** when the Government is proposing the intervention;
 - **EU:** when the proposed intervention implements an EU obligation; or

- **international:** from an international source other than the EU. This includes:
 - when the Government is proposing legislation to implement international obligations where the EU has negotiated an agreement on behalf of the UK;
 - when the Government is proposing legislation to implement a treaty between the UK and a third party; and
 - when the Government is proposing legislation to implement other international obligations.

- 3.8 Identifying the source of the intervention enables stakeholders to understand the origins of the Regulation and for the Government to monitor the amount of Regulation from each source. The key point is to determine the legal and political source of the regulatory obligation and the cost of implementing that obligation. In the event that there is more than one source for your proposed intervention, you should choose the category which is responsible for the bulk of regulatory requirements in terms of projected cost. You may need to make this decision if the EU is both implementing an international agreement and legislating on its own account, or if you are implementing an international treaty and separately implementing domestic policy. If in doubt which category to choose, please consult the BRE or departmental lawyers.
- 3.9 Identify the **type of measure** from a drop-down menu i.e. whether the legislation underpinning the IA is primary or secondary legislation, or whether it is a non-legislative measure (in which case you will need to select 'Other' from the drop-down menu).
- 3.10 **Contact for enquiries:** a contact name (generally the lead policy official), telephone number and e-mail address must be given for all published IAs, to allow stakeholders to raise any queries on the content of the IA.

Chapter 4: COMPLETING AN IA TEMPLATE: INTERVENTIONS AND OPTIONS SECTION

Summary: Intervention and Options

- 4.1 The 'Summary: Intervention and Options' page of the IA Template captures key information about the problem under consideration, the reason why government intervention is necessary, the objectives of the policy and the options considered.
- 4.2 There should be a single 'Summary: Intervention and Options' page at each stage of the IA. However, the amount of information contained might vary at different stages of the IA. For example, there might not be a preferred option at the development, options or consultation stages. In addition, only one, the chosen intervention, will be presented at the enactment stage.

Rationales for Intervention and Policy Objectives

What is the problem under consideration? Why is government intervention necessary?

Maximum of 8 lines

What are the policy objectives and the intended effects?

Maximum of 8 lines

- 4.3 It is essential to articulate clearly the rationale for intervention and the objectives of the policy. The rationale should refer to Market Failures, government failures or to distributional objectives. It may also refer to tackling public risks. Government should not intervene unless it is necessary to do so to achieve specified objectives.
- 4.4 There are a number of advantages to articulating early, at the start of the policy development process, and supporting with evidence, the problem that the intervention is intended to fix. This section should summarise:
- evidence about the nature of the problem, including its scale and the context in which it arises or has arisen;
 - the probability that it will occur and its likely frequency;
 - who it will impact on; and
 - who is best placed to manage/resolve the problem (is it for the government to act?).
- 4.5 State clearly the objectives and the outcomes that the policy is intended to achieve. Getting these right is important because it is against these objectives (and related success indicators) that the success of the policy will be evaluated in the PIR. The 'Principles of

Better Regulation' state that, all Regulation should be proportionate and targeted, i.e. it should impose the minimum burden necessary to achieve its objective minimising undesirable side-effects. Both of these principles require objectives to be clearly articulated. Clear objectives also facilitate consistent enforcement.

- 4.6 Argument for government intervention in markets may be based on economic efficiency grounds (Market Failure), to correct a government failure, tackle public risk or to achieve public policy objectives. However, identifying a rationale to intervene does not itself justify intervention.
- 4.7 Government intervention can incur costs and create economic distortions. These must be taken into account to determine whether intervention is warranted. Whether intervention is justified will depend on whether the proposed intervention can improve on outcomes, taking into account the costs and the risk involved in achieving the improvement. If risk remains that the outcome of government intervention may not improve welfare, the results should be closely monitored as part of your PIR (see [Chapter 8](#) for further details).
- 4.8 Individual arguments for intervention are not necessarily mutually exclusive – several factors may underpin the argument for intervention. It will be important to set out, clearly and concisely, the different arguments.
- 4.9 Government should regulate to achieve its policy outcomes only having demonstrated that satisfactory outcomes cannot be achieved by alternative, self-regulatory, or non-regulatory approaches.

Market Failure

- 4.10 Economic efficiency is achieved when nobody can be made better off without someone else being made worse off. Such efficiency enhances prosperity by ensuring that resources are allocated and used in the most productive manner possible.
- 4.11 Market Failure is a description of a situation where the market mechanism alone cannot achieve economic efficiency. This can occur for a number of reasons, which are briefly discussed below.

Public goods

- 4.12 The market may have difficulty supplying and allocating certain types of products and services, such as public goods. Public goods are those that are 'non-rival' or 'non-excludable' when used or consumed.
 - 'Non-rival' means that the consumption of the good by one person does not prevent someone else using or consuming that good. Clean air is an example of a non-rival good.

- 'Non-excludable' means that if a public good is made available to one consumer, it is effectively made available to everyone. National defence is an example of a non-excludable good.
- 4.13 Non-excludability can give rise to a problem known as 'free-riding'. This is when some consumers fail to pay for the provision of the public good because they expect others will do so. This implies that the returns to potential suppliers will be less than society as a whole would be willing to pay collectively. So the market will supply less than the socially optimal level of the good or service.

Externalities

- 4.14 Externalities result when a particular activity produces benefits or costs for others that are not directly priced into the market. Externalities are associated with, for example, research and development spill-overs, and environmental impacts, such as pollution. A firm might keep down its own costs by not investing in water pollution controls, but in so doing would raise the costs of those firms and individuals relying on using clean water. As a result the polluter has imposed an external cost on other users, or alternatively, a reduction in pollution confers an external benefit upon these other users.

Imperfect information

- 4.15 Information is needed for a market to operate efficiently. Buyers need to know the quality of the good or service to judge the value of the benefit it can provide. Sellers, lenders and investors need to know the reliability of a buyer, borrower or entrepreneur.
- 4.16 Where this information is not available to both sides of the market, there is a Market Failure. This is known as 'asymmetric information'. For example, sellers often have information that buyers do not about some aspect of product or service quality.
- 4.17 Information asymmetry can restrict the quality of the good traded, resulting in 'adverse selection'. For example, in the case of second hand cars, the lack of information regarding quality can cause consumers to be willing to pay too little to incentivise sellers of high quality cars to sell, thereby making the market more likely to contain low quality cars (often referred to as the 'Market for Lemons' dilemma). The presence of asymmetric information can lead to the presence of 'bad' products driving out the good.
- 4.18 Where a contract or relationship places incentives upon one agent to take (or not take) unobservable steps that affect the welfare of another agent, this is known as 'moral hazard'. For example, people with insurance tend to take more risk.

Market power

- 4.19 Market power is the extent to which a firm can profitably influence the price of an item by exercising control over its demand, supply or both.
- 4.20 In perfectly competitive markets, each firm has zero market power. However, in imperfectly competitive market, firms can have varying levels of market power, including almost monopoly power.
- 4.21 Factors impacting the competitiveness of markets can include high start up costs (e.g. telecommunications, energy), access to limited raw materials required to enter, and highly differentiated products (e.g. Apple iPod).
- 4.22 If market power exists, it may be misused by the firm or firms with a dominant position, for example through excessive pricing or predatory pricing practices (where prices are set below cost to drive out competitors and then raised once they have left).

Government Failure

- 4.23 Government failure (or non-market failure) is the public sector analogy to Market Failure and occurs when a government intervention causes a more inefficient allocation of goods and resources than would occur without that intervention.
- 4.24 Government failure is not a failure of a government to bring about a particular solution, but is rather a systemic problem which prevents an efficient government solution to a problem.
- 4.25 Government failure can be caused by a number of factors including: political self-interest, policy myopia, regulatory capture, disincentive effects of existing interventions, imperfect information, unintended consequences, costs of enforcement.

Equity and Other Social Welfare Objectives

- 4.26 Although efficiency improvements often drive government intervention, equity (or fairness) objectives are also a major consideration. Equity arguments for intervention take a variety of forms.

Equity arguments for intervention

Equity Argument	Description
Vertical Equity	Redistribution of income from richer to poorer individuals/families
Horizontal Equity	Individuals/families with similar needs should be treated similarly
Social Inclusion	Everyone should have access to income opportunities and services which allow them to fully participate in the life of the society in which they live
Intergenerational Equity	Balancing the needs of current and future generations

4.27 Separate from equity objectives, other social welfare objectives can include:

- **redistributive goals**, often achieved through the taxation and social security systems but sometimes through regulation. The aim is to increase equity between richer and poorer individuals or families (vertical equity), between individuals with similar needs (horizontal equity), or between generations (intergenerational equity);
- **reducing the risk of criminal activity**. Thus, persons in occupations such as second-hand dealers and dealers in firearms may be required to keep detailed records of transactions to assist police in apprehending and prosecuting suspected criminals; and
- **human rights**, protecting the vulnerable and disadvantaged, and relieving geographic and social isolation.

4.28 As with Market Failures, individual arguments for intervention are not necessarily mutually exclusive – several factors may underpin the argument for intervention.

Existing Policy Levers

4.29 When considering intervening you should identify what policy levers may already be in place that try to address, or could address, the problem you have identified.

4.30 If existing levers can deal with the problem, further intervention may not be needed. Instead, you should use of those existing levers to address the identified Market Failure and/or equity problem.

4.31 It is important to understand the context by considering the following:

- Is the potentially harmful/inequitable situation new?
- What other existing interventions might overlap with your proposals?
- Are there existing interventions that would partner or complement your proposals?
- Are there existing interventions which would mitigate the intended effects of any new proposals?

Cumulative Impact

- 4.32 It is essential, when considering the introduction of additional Regulations, that the cumulative impact of all existing Regulations on a particular industry is taken into account, together with the impact of any new Regulations under consideration by the Government.
- 4.33 Departments should identify any related or overlapping Regulations (e.g. Regulations from multiple authorities) that affect those organisations and individuals likely to be affected by a new proposal. Consider the incremental cumulative impact of your proposal, taking into account these other related Regulations.

Policy Options

**What policy options have been considered, including any alternatives to regulation?
Please justify preferred option (further details in Evidence Base)**
Maximum of 11 lines

- 4.34 Set out the policy options that are being considered and presented in the evidence base of the IA. Only genuine policy options should be presented. In some cases, more options will be necessary; in others (e.g. transposing an EU directive with very limited national discretion) fewer may be sufficient.
- 4.35 When considering the transposition of legislation agreed at EU level, an IA should be produced to inform the best approach to UK implementation. The policy options will not include ‘do nothing’ (i.e. not implementing a directive). Rather, the IA should set out clearly the minimum required to implement in the UK the decision taken at EU level.⁴ See the [Guiding Principles for EU Legislation](#).
- 4.36 The information provided in this box of the IA Template will typically change as the policy is developed, according to the IA stage:
- **Consultation stage:** All the options considered should be identified, together with their potential for achieving the stated objectives. A shortlist of options should be taken forward to the

⁴ See the [appropriate baseline](#) for Impact Assessments for transposition of EU decisions.

next stage of policy development and associated IA (using analysis of the costs and benefits to establish the most feasible solutions – your departmental economists can advise on estimation techniques).

- **Final and enactment stages:** At the final and enactment stages of the IA, the preferred option should be identified, along with a short explanation of why it is the preferred option.

4.37 The 'Evidence Base' section, other than at the PIR stage, should contain a description of each of the options considered (including the 'do nothing' option). All options must be assessed against the status quo or 'do nothing' situation. This will help draw out the implications of no action and also act as a baseline against which to assess the (so-called 'marginal') impacts of other options.

Regulatory and non-regulatory options

4.38 It is important for all relevant options to be considered at the outset of policy development, including alternatives to state regulation. These could include, for example, service charters, quality marks and codes of practice. Information on [alternatives to state regulation](#), such as provision of information or self-regulation.

4.39 It is the Government's policy that will regulate to achieve its policy objectives only as a last resort. It must first be demonstrated that satisfactory outcomes cannot be achieved by alternative, self-regulatory, or non-regulatory approaches.

4.40 If regulatory intervention is required, you should make sure that it complies with better regulation principles, as set out below. The principles state that any Regulation should be:

- proportionate: costs of remedies in line with size of identified risks and benefits. Desired outcomes achieved with the minimum possible burden. Intervention only when necessary;
- accountable: regulatory bodies must be able to justify decisions, and be subject to public scrutiny;
- consistent: Government rules and standards must be joined up and implemented fairly and consistently;
- transparent: regulators should be open, and keep regulations simple and user friendly; and
- targeted: regulation should be focused on the problem, and minimise side effects.

4.41 Details of the Government's approach to regulation are provided in [Reducing Regulation Made Simple](#).

- 4.42 [‘Regulated information: a guide for policy-makers’](#) sets out four simple principles to follow when considering requiring third party organisations such as business to provide information to consumers, or reviewing the effectiveness of existing requirements.
- 4.43 Information on options for tackling public risks (e.g. monitoring risks and hazards, carrying out research into the nature of the hazard or the level of risk exposure, communication on risks and hazards) can be found in Green Book supplementary guidance on [managing risks to the public](#).

Post-Implementation Review at Different Stages in the IA Process

- 4.44 The Government expects policymakers to evaluate policies after implementation. Evaluation is used:
- to identify whether the policy change is achieving the desired results;
 - to identify whether costs and benefits are in line with expectations;
 - to inform future policy development;
 - to improve delivery methods; and
 - to develop the techniques used to assess the impact of policy interventions.
- 4.45 Evaluation also improves policy formulation up front, since the knowledge that the policy will be subject to review later on helps to focus preparatory work.
- 4.46 The PIR aspect of an IA is a form of evaluation. The IA Guidance sets out the Government’s policy regarding when a PIR is needed, how often a PIR should be carried out; and what conducting a PIR may entail.
- 4.47 Other than at the PIR stage itself, the front page of the IA Template requires you to set out information on plans for PIR. The information required changes between the IA for policy development stages and the IA for PIR.

IA for policy development – setting out PIR plans

When will the policy be reviewed? It will/will not be reviewed If applicable, set review date: Month/Year	
What is the basis of this review? Sunset clause/Duty to review/PIR/Not applicable If applicable, set sunset clause date Month/Year	
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes/No

- 4.48 You must specify in the IA Template when a PIR will be conducted to evaluate the extent to which the policy has achieved its objectives:
- you will need to provide your planned date for the policy review;
 - a date for PIR should ordinarily be set out in the final stage IA; and
 - a PIR is normally expected 3-5 years after implementation.
- Further details are given in the IA Guidance PIR section.
- 4.49 You must specify the basis of the review (e.g. sunset clause). Where the policy falls within the scope of the Government’s policy on sunsetting new regulations, the PIR will need to be conducted on a timescale that enables the relevant statutory deadlines to be met.
- 4.50 You will also need to confirm whether or not there are arrangements in place for a systematic collection of information for monitoring of the implementation of the policy or to support the future PIR. This could involve use of existing arrangements or require the collection of new policy-specific information.
- 4.51 You should provide details of your plans to carry out a PIR in the consultation, final and enactment stage IAs. You will need to answer the PIR-related questions on the front page (above) and then complete the PIR plan in Annex 1 (see [Chapter 8](#) for further information on the PIR plan. See [Annex 9](#) for further information on evaluation).
- 4.52 Setting out a PIR plan at consultation stage will allow Departments to seek endorsement of their proposals for a proportionate review.
- 4.53 Where relevant, the PIR plan should also include plans for producing the ‘Post-Legislative Scrutiny Departmental Memorandum’.⁵
- 4.54 If there is no intention to carry out a PIR of the policy, you must set out the reasons in the final box of Annex 1.

⁵ See the Cabinet Office [Guide to Making Legislation](#).

After a PIR is carried out

How have the policy objectives been achieved? Please highlight any unintended consequences. Maximum of 10 lines	
What was the original commitment date to review this policy?	01/2010
If you did not meet the original commitment date to review this policy please explain why. Maximum of 3 lines	

4.55 The information required on the front sheet of the IA Template changes at PIR stage.

4.56 You should provide a brief summary of the results of your PIR.

You should summarise the extent to which the objectives and success criteria of the policy are being met; identify if the implementation of the policy gave rise to unintended consequences; and summarise any policy recommendations. This box is a summary only; the analysis underpinning the summary should be recorded in the 'Evidence Base' section (see [Chapter 7](#): Evidence Base).

4.57 You will need to confirm whether the PIR was carried out by the date originally stated in the final and/or enactment IA. The date for review contained in the final and/or enactment stages IA is not a binding promise, unless a statutory review obligation applies. There may be good reasons for Departments to decide nearer the time to change the date for review. In such cases, you should give the reasons behind the decision to delay or forego the planned review. However, if a statutory review obligation applies, the date for review will be set in legislation and the PIR will need to be carried out before this point.

Ministerial Declaration

4.58 The IA Guidance sets out the stages within the policy making process at which an IA must be formally produced and published, and what approval is necessary before an IA can be published at the different stages.

4.59 The minister responsible for the policy, or the chair or chief executive of non-ministerial Departments, non-departmental public bodies and other agencies (Minister) is required to sign off published IAs. In the case of joint IAs, a Minister from the lead Department should sign it off.

- **Ministerial Sign-off: for consultation stage IAs:**
"I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options".

- **Ministerial Sign-off**: for final proposal/enactment stages IAs:
“I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.”
- **Ministerial Sign-off**: for review stage IAs:
“I have read the Impact Assessment and I am satisfied that it represents a fair and proportionate assessment of the impact of the policy.”

- 4.60 IAs cannot be published on the IA library if the Ministerial declaration has not been completed.
- 4.61 Departments must facilitate these declarations by involving their economists from the early stages of policy development and by operating sound procedures for advising Ministers.
- 4.62 Robust departmental processes might include internal sign-off mechanisms; peer group review by economists; use of external panels of key stakeholders or professional experts to review the evidence; or a requirement that Chief Economists are consulted on all submissions to Ministers that address policy matters that would normally also require an IA (a Chief Economist review).
- 4.63 Chief Economists should sign-off the robustness and accuracy of the costs, benefit and impact analysis at the different stages; this is an internal sign-off mechanism and does not imply their approval of the policy proposal itself.
- 4.64 [Annex 1](#) has information on the publishing and quality assurance of IAs, the role of the BRE and of the Regulatory Policy Committee (RPC).

[Back to contents](#)

Chapter 5: COMPLETING AN IA TEMPLATE: ANALYSIS AND EVIDENCE

Introduction: Analysis and Evidence

- 5.1 This chapter deals with the 'Analysis and Evidence' section of the IA Template, which captures key data and information on each of the policy options considered. This includes monetised and non-monetised costs and benefits, as well as the key assumptions, sensitivities and risks used for estimating them.
- 5.2 All the information presented in the IA Template should be explained in the 'Evidence Base' section. It is particularly important that the 'Evidence Base' section should show how the headline costs and benefits have been generated by clear and transparent presentation of figures and any assumptions used (see [Chapter 7](#) below for further information on how to complete the Evidence Base) and robust evidence for key non-monetised costs.
- 5.3 At the consultation and final stage IAs, for each policy option considered, use one 'Analysis and Evidence' page and one 'Implementation, Enforcement and Wider Impact' page to capture the impacts. The preferred option or most likely policy option to be taken forward should be included as the 'Analysis and Evidence' page for 'Policy Option 1'.
- 5.4 The impact of the 'do nothing' option, does not have to be captured in an 'Analysis and Evidence' page (as it is the baseline against which the impact of the other policy options are assessed, and therefore by definition has incremental cost of zero) but you will need to have considered as a genuine policy option, and therefore a full description of its impact considered as part of the 'Evidence Base' section.
- 5.5 For an IA covering several parts to a Bill, for example, it is sensible to cover the options of each part, but to also have an overall summary 'Analysis and Evidence' page.
- 5.6 At the enactment and PIR stage IA, only the chosen policy option should be analysed in the 'Analysis and Evidence' section, and 'Implementation, Enforcement and Wider Impact' pages of the IA Template.
- 5.7 However, at the enactment stage you will still need to provide background of the options considered as part of the 'Evidence Base' section (but not at the PIR stage). This evidence may refer back to your previously published consultation and final stage IAs.
- 5.8 Guidance on appraisal is provided by the [Green Book](#) chapter 5 and annexes 2 to 4 as well as in supplementary guidance on various

aspects of valuation and risk, all of which can be found on the Green Book web site.

5.9 Further to this chapter you may want to read the following annexes:

- [Annex 2](#) provides a general overview to valuation of costs and benefits of the options: coverage of costs and benefits, estimating costs and benefits, sectors and groups affected, discounting; and
- [Annex 3](#) deals with risk (including public risk) and uncertainty and unintended consequences.

Cost and Benefits to be Included in the Analysis and Evidence Page

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)
Low	Optional		Optional	Optional	
High	Optional		Optional	Optional	
Best Estimate					
Description and scale of key monetised costs by ‘main affected groups’ Maximum of 5 lines					
Other key non-monetised costs by ‘main affected groups’ Maximum of 5 lines					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)

5.10 Quantifying the costs and benefits of options enables the decision maker to compare the options and inform choices between them. Issues of equity, social significance, as well as political considerations, will also influence decisions.

5.11 Relevant costs and benefits are those that arise from the decision at hand, i.e. directly attributable to the policy or intervention of each option (first round effects). Indirect impacts (second round effects) should be brought into the analysis where they are significant (see ‘[Coverage of Costs and Benefits](#)’ below).

- 5.12 For each option you must present only the costs and benefits that are **additional** (so-called incremental or marginal costs and benefits) to those that would have been incurred if no action were taken. This is referred to as **the baseline** or counterfactual against which all options are compared, i.e. all potential costs and benefits of each option over and above what would happen in the absence of any intervention.
- 5.13 Note, the baseline, or counterfactual, may involve changes over time irrespective of whether the policy is implemented. For example, you may expect the number of businesses operating in a developing market to increase over time. It is against this baseline that the incremental, or marginal, cost of all options will be assessed.
- 5.14 The baseline, or counterfactual, for estimating the incremental costs and benefits of transposing EU legislation is a notional 'do nothing' scenario, in which no action is taken, though that is not a feasible policy option. You must include as an option the minimum required to implement the directive in the UK⁶. The marginal costs and benefits of all other options are those over and above the notional baseline of no change so they can be compared against the minimum implementation. For example, if minimum implementation of an EU directive has an incremental cost of £100m (to what would have occurred if the directive were not implemented in the UK), compared with an alternative which could cost £110m, i.e. a further £10m over the minimum implementation option.
- 5.15 You must provide the estimates of costs and benefits in **constant prices**, i.e. expressed in real terms, (as opposed to nominal terms or current prices), which adjusts for the effects of inflation. You must select the latest price information available (the **price base**) for your estimates, unless there is a good reason not to do so.
- 5.16 It is likely that most regulatory proposals will impose costs and have benefits that accrue over a number of years. Impacts should be considered over the lifetime of the policy. In order to compare options which have costs and benefits occurring at different times you need to adjust the estimates by discounting the impacts to the same point in time, to estimate the **Present Value** of the impacts.
- 5.17 Discounting is a technique used to compare costs and benefits that occur in different time periods. **Discounting** is a separate concept from inflation and is based on the idea of 'time preference', i.e. in general people prefer to receive goods and services sooner rather than later and prefer to put off paying for things as far into the future as they can. It is the same for regulatory proposals: the sooner the benefits can be realised and the further into the future the costs the more it may be preferred. The **recommended Discount Rate is 3.5%**, following the advice in the [Green Book](#).

⁶ See [genuine policy options](#) for Impact Assessments for transposition of EU decisions.

- 5.18 Calculating the Present Value of the differences between the streams of costs and benefits provides the Net Present Value (NPV) of an option – the primary criterion for deciding whether government action can be justified. See [Annex 2](#) 'Valuation of the Policy Options' for further advice on discounting.
- 5.19 The following information should be provided at the top of the 'Analysis and Evidence' page:
- **Price Base Year:** the year chosen for the constant price presentation of the estimates;
 - **Present Value (PV) Base Year:** the year in which the impacts over time are valued, i.e. the year to which the future impacts are discounted. This is normally the year in which the estimates are undertaken or policy decisions taken; and
 - **Time Period:** the length in years of the expected life of the policy. Use the appropriate appraisal period and where this is not identifiable after serious thought, a ten-year period should be used for the analysis. See [Annex 2](#) for further details.
- 5.20 The 'Summary: Analysis and Evidence' page requires monetised costs and benefits (in million pounds) to be presented in three ways, to allow decision makers and stakeholders to focus on different aspects of the impact of a policy option:
- **Transition costs and benefits:** these are transient, or one-off costs or benefits that occur, which normally relate to the implementation of the measure. These are expressed as a total over the number of years over which the costs or benefits occur;
 - **Recurring costs and benefits (excluding transition):** these are the costs and benefits that will recur while the policy measure remains in force (they may occur in every year, or at a different frequency, although the scale of the impact may change over time). These are expressed as an annual average (over the life of the policy); and
 - **Total:** includes all monetised costs and benefits over the life of the policy, expressed in **Present Value** terms.
- 5.21 All relevant costs and benefits to the Government and society of all options should be valued, and the **net benefits or costs** recorded in the box in the top right of the 'Summary: Analysis and Evidence' sheet. The decision maker can then compare the results between options to help select the best.
- **Net Benefit (PV) = Total monetised benefit – Total monetised Costs**

- 5.22 In order to reflect the inherent uncertainty of costs and benefits estimates over the lifetime of policies, you may want to provide a **range for your costs and benefits estimates** (low and high points of the range of transition, recurring, total and net costs and benefits). Such ranges allow decisions to be taken with consideration of problems and uncertainty that might occur.
- 5.23 Whether or not a range is used, in any case a **Best Estimate** must be provided. This will be the most likely point in the range (having some detailed analysis of the probability distribution of costs and benefits). In the absence of information on the distribution of costs and benefits, use the mid-point of the range. While information on the distribution is preferable, it may not be proportionate in every case to go into such a depth of analysis.
- 5.24 **Monetised** costs and benefits should normally be based on **market prices** as they usually reflect the best alternative uses that the goods or services could be put to (i.e. the **Opportunity Cost**).
- 5.25 There are a few exceptions where valuing at market prices is not suitable. If the market is dominated by monopoly suppliers, or is significantly distorted by taxes or subsidies, prices will not reflect the Opportunity Costs and adjustments may be required and specialist economic advice will be needed.
- 5.26 Wider social and environmental costs and benefits for which there may be no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be quantified. Other forms of quantification could be used where appropriate (see 'Estimating Benefits' and 'Estimating Costs' below). For example, number of lives saved, increased manpower requirements, changes in emission levels or number of new bits of equipment needed. Such measures should allow options to be compared but may not allow the relative costs and benefits to be weighed up. Costs and benefits should be recorded in qualitative terms only when the above are not possible.
- 5.27 Summarise on the 'Summary: Analysis and Evidence' page the **key monetised and non-monetised costs and benefits, that impact on particular groups**, such as particular industries, sectors, firm size, public sector, social groups or regions. This is important because the options under consideration may have beneficial impacts on some groups and negative impacts on others. These should be explained in detail in the 'Evidence Base' section. See [Annex 2](#) 'Valuation of costs and benefits of the policy options' for further advice on sectors affected.

Key Assumptions, Sensitivities and Risks

Key assumptions/sensitivities/risks

Maximum of 8 lines

- 5.28 The depth of analysis should be proportionate to the likely impact of the policy option but robust enough to inform decision making. It is important to avoid being spuriously accurate when concluding from, and presenting the results of, data generated by the appraisal. As part of this you should also identify any specific risks or areas of uncertainty that may impact on the levels of costs and benefits.
- 5.29 To deal with uncertainty about the future and the likely impact of the policy options considered you will have to make assumptions when assessing the impact of an option and when comparing between them. You should state clearly what main assumptions you have made in the **key assumptions, sensitivities and risk** box. These should be tested to ensure the sensitivity of your estimates of costs and benefits to the different assumptions. Changing the assumptions will provide a range of possible estimates. See ‘Risk, Uncertainty and Unintended Consequences’ in [Annex 3](#) for further advice on this.

One-In, One-Out rule (OIOO)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:	Yes/No	IN/OUT

- 5.30 The completed IA Template is used as an information source for tracking and publicly reporting the Government’s performance in meeting its regulatory agenda.
- 5.31 The boxes at the bottom of page two of the IA Template are for recording the impacts identified within the IA that score against the OIOO rule. OIOO records direct impacts on business and civil society organisations⁷ only. These must be presented in equivalent annual costs / benefits, including:
- the direct net impact on business including costs and benefits;
 - whether the measure is in scope of OIOO; and
 - whether the measure qualifies as an IN/OUT under OIOO.
- 5.32 A completed IA is required for all measures in-scope of OIOO. The full impacts resulting from measures should be presented in the boxes recording the direct net costs and benefits of the policy options. These

⁷ When this paper uses the term “business”, it should be taken to refer to both business and civil society organisations.

boxes present the impacts on business and civil society organisations which are relevant to the delivery of the measure.

- 5.33 For detailed information on treatment of measures which are in-scope of OIOO please refer to the OIOO methodology document, which should be available through your Chief Economist or [Better Regulation Unit](#).
- 5.34 Underpinning evidence and calculations for OIOO should be provided in the relevant 'Evidence Base' section.

[Back to contents](#)

Chapter 6: COMPLETING AN IA TEMPLATE: IMPLEMENTATION, ENFORCEMENT AND WIDER IMPACTS

What is the geographic coverage of the policy/option?	Options				
From what date will the policy be implemented?	01/01/2010				
Which organisation(s) will enforce the policy?					
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?	Yes/No				
Does implementation go beyond minimum EU	Yes/No				
What is the CO ₂ equivalent change in greenhouse gas emissions?	Traded:	Non-traded:			
Does the proposal have an impact on competition?	Yes/No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?					
Distribution of annual cost (%) by organisation size	Micro	< 20	Small	Medium	Large
Are any of these organisations	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No

6.1 Understanding the **geographic coverage** of the policy option is important, to provide clarity about the scope of the policy and give context to the scale of costs and benefits. Choose one of the options from the menu (see below). If 'Other', specify in the field available next to the menu:

- United Kingdom
- Great Britain
- England and Wales
- England
- Wales
- Other

6.2 Record the **date when the policy will be implemented**. In line with the rules on Common Commencement Dates, and subject to particular exceptions, legislation bearing on business can only commence on 6 April or 1 October each year. However, for all options considered (including non-regulatory options), the date of implementation of the proposal should be clearly stated on the summary page.

6.3 **Enforcement:** you should indicate:

- which organisation(s) will enforce the policy;
- what the change in annual enforcement costs will be: this refers to the change in the cost of enforcement with respect to the

existing situation. The change in cost may be positive or negative. Use the same constant price base for this calculation⁸;

- whether enforcement complies with the [Hampton principles](#).

[Annex 4](#) below provides further information on implementation and enforcement issues.

- 6.4 Understanding whether the proposed options will go beyond **minimum EU requirements** or avoid over-implementing ('Gold-Plating') EU directives is important, unless there are exceptional circumstances to do so and the benefits demonstrably outweigh the costs. Hence, if your proposal goes beyond the minimum requirements of the EU directive that it implements, you will need to make the case for this in the 'Evidence Base' section. If the proposal does not relate to an EU directive, write 'N/A'.
- 6.5 Recording the CO₂ equivalent change in **greenhouse gas emissions** resulting from the policy options provides information for Carbon Budgets. The impacts should be recorded in million tonnes of CO₂ equivalent. A greenhouse gas impact assessment is an integral part of assessing environmental impacts. You will need to indicate the impact on the traded and non-traded sectors. However, if it appears that your policy does not affect an activity or sector that may have a significant impact on emissions of greenhouse gases, you do not need to conduct a full carbon impact assessment. See the guidance on 'A Greenhouse Gas Impact Assessment' for further information.
- 6.6 It is important to identify whether the proposals have an impact on competition. Do the policy options make it more difficult for new or existing businesses to enter the market, or will they decrease competitive pressures in the market? Consult the [OFT's guidance on Competition Assessment](#) to help you consider the effect of different policy options on competition. If the policy involves a subsidy then please consult the OFT guidance on how to measure the competition effects of subsidies. If there is a competition effect you will need to complete a 'Competition Specific Impact Test' – see [Annex 5](#) below.
- 6.7 Record the proportion (%) of total PV costs/benefits directly attributable to primary legislation. Primary legislation IAs should include costs and benefits that relate directly to primary legislation and future secondary legislation, enabled by the primary legislation. The purpose of this question is break down the costs / benefits that occur directly from primary legislation over the total Present Value cost / benefit of primary legislation. If this is a secondary legislation IA, please enter "NA or the agreed text"

⁸ The cost of enforcement should be recorded on a 'gross' basis. For example, if a new regulation requires new enforcement costs of £10m, but £5m of this can be recovered through charges levied on the firms affected, you should record here the change in annual enforcement costs as £10m. Record the net impacts in the evidence base.

- 6.8 In understanding the impacts of the policy options, it is important to consider the impacts on business and the third sector **organisations of different size**. State the estimated proportion (%) of annual cost per organisation (excluding one-off costs) of the option or proposal under consideration for micro (<10 employees), less than 20 employees, small (< 50 employees), medium (<250 employees) and large organizations (250+ employees).⁹
- 6.9 To reduce the disproportionate regulatory burden often faced by micro and small business, careful consideration must also be given to exemption of these categories. Consult guidance on the Small Firms Impact Test ([Annex 5](#)) to help you consider the definitions of organisation size and the calculation of costs to organisations.

[Back to contents](#)

⁹ This refers to the % of cost that falls into the different categories of organisations by size (below), not per organisation within each category.

Specific Impact Tests

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹⁰ Statutory Equality Duties Impact Test guidance	Yes/No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes/No	
Small firms Small Firms Impact Test guidance	Yes/No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	Yes/No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	Yes/No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	Yes/No	
Human rights Human Rights Impact Test guidance	Yes/No	
Justice system Justice Impact Test guidance	Yes/No	
Rural proofing Rural Proofing Impact Test guidance	Yes/No	
Sustainable development Sustainable Development Impact Test guidance	Yes/No	

- 6.10 A range of tests aim to ensure that policy development is joined up and that individual policy proposals take account of a number of broad policy objectives. Some of the tests are designed to help policy-makers monetise costs and benefits, whether economic, environmental or social. Other tests enable policy-makers to identify non-monetised costs and benefits, or to identify the differential impacts of policy proposals.
- 6.11 Please note the Specific Impact Test checklist is not intended to list each and every statutory consideration that Departments should take into account when deciding which policy option to follow and it is the responsibility of Departments to make sure that their duties are complied with.
- 6.12 Policy-makers are encouraged to consult the available departmental guidance on Specific Impact Tests at the early stages of policy-making (See [Annex 5](#)).

¹⁰ Public bodies including Whitehall departments are required to consider the impact of their policies, procedures and practices on race, disability and gender. From April 2011, this will extend under the Equality Act 2010 to also include age, gender re-assignment, pregnancy and maternity, religion or belief, and sexual orientation. The Equality Act 2010 applies to Great Britain. The IA Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

- 6.13 You must exercise your judgment in applying these tests, ensuring that the overall analysis is proportionate and that there is a clear focus on costs and benefits. Many tests have initial screening mechanisms that enable you to determine quickly whether further assessment is necessary or desirable.
- 6.14 Public authorities have legal duties to have ‘due regard’ to the need to eliminate discrimination and promote equality with regard to race, disability and gender, including gender reassignment, as well as to promote good race relations. The law requires that this duty to have ‘due regard’ be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities show due regard (see [Annex 5](#) ‘Statutory Equality Duties Guidance’ provided by the Equality and Human Rights Commission). This obligation is extended under the Equality Act 2010, [Annex 5](#) for details.
- 6.15 Where the use of Specific Impact Assessments provides evidence contributing to the identification or quantification of (monetised and non-monetised) costs and benefits resulting from the policy options, the results should be set out in the main ‘Evidence Base’ section and included in the ‘Summary: Analysis and Evidence’ page.
- 6.16 Where the tests yield information relevant to an overall understanding of policy options, the detailed results may be annexed to the IA.

[Back to contents](#)

Chapter 7: COMPLETING AN IA TEMPLATE: EVIDENCE BASE

Evidence Base

References

No.	Legislation or publication
1	
2	
3	
4	

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section

7.1 In the first page of the 'Evidence Base' section you may provide:

- **references:** include the links to relevant legislation and publications, such as public Impact Assessment of earlier stages (e.g. consultation, final, enactment) and those of the matching IN or OUT measures. Relevant legislation should be referenced using standard OPSI format; and/or
- the **annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred or chosen policy option (use the spreadsheet attached if the period is longer than 10 years). You may use Best Estimate figures in the annual profile table. The spreadsheet also contains a saving emissions table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

7.2 The 'Evidence Base' section should include a mixture of narrative, analysis and research that underpins the answers given on the summary pages of the IA Template.

7.3 It is particularly important that the 'Evidence Base' sections set out clear evidence that justify the inclusion in the analysis of any monetised

as well as non-monetised cost or benefits, and show how the headline costs and benefits have been generated, by clear and transparent presentation of figures and any assumptions used.

- 7.4 The balance of economic, social and environmental costs and benefits should emerge clearly from this presentation. Use of disaggregated figures should help readers gain a better understanding of the monetised costs and benefits of the policy options that are presented in aggregated terms on the summary pages of the IA. It may also be useful to present a summary table that compared the main monetised costs and benefits of the various options considered.
- 7.5 The information must stand up to external scrutiny – i.e. it should be accessible to the lay reader, and external parties with an interest must be able to contest the data. It should also be consistent with the [Green Book](#) guidance on appraisal and evaluation.
- 7.6 Departments and regulators are free to choose how to set out the ‘Evidence Base’ section. However, presenting the evidence base following a standard structure has the benefit of improving the transparency of the information contained. It is therefore desirable that the following points are covered:
- problem under consideration;
 - rationale for intervention;
 - policy objective;
 - description of options considered including ‘do nothing’;
 - costs and benefits of each option (including Administrative Burden);
 - risks and assumptions;
 - direct costs and benefits to business calculations (following OIOO methodology);
 - wider Impacts; and
 - summary and preferred option with description of implementation plan.
- 7.7 A maximum length of 30 pages is recommended, in order to aid the lay reader and external parties with an interest. Using headings and clear drafting and avoiding repeating material that is presented elsewhere, such as in explanatory notes or explanatory memoranda, would also assist in ensuring the ‘Evidence Base’ section remains a focused document, supporting the summary pages.
- 7.8 At the consultation and final stages, when a number of options (each with its own ‘Summary: Analysis and Evidence’ page) are being considered, the content of the ‘Evidence Base’ section should clearly address all of the options; when there is a preferred option, the ‘Evidence Base’ section should provide a clear justification.

- 7.9 At the enactment stage an option has been chosen, and while the focus should be on the costs and benefits of the preferred option, it should clearly set out a clear justification for its selection, when compared against the other options considered. It may be useful to include reasons for discarding options that are not adopted.

Evidence base for the PIR IA

- 7.10 It is the duty of officials to monitor the effectiveness of policy implementation and to give frank and impartial advice on the extent to which policies are working as intended and to identify lessons to be learned. In addition, where there is a sunset date for a policy, there is a statutory review obligation. Where a policy is failing to achieve its objectives, or where the costs and benefits are significantly different from those anticipated, it is the duty of officials to draw this to a Minister's attention. The PIR IA is an important component of this process.
- 7.11 The 'Evidence Base' section of the IA at the PIR stage should capture information and evidence collected during routine monitoring and as a result of conducting the PIR and should summarise the findings of the review.
- 7.12 As in the other stages of IA, Departments retain considerable freedom to choose how to set out the evidence in the 'Evidence Base' section in the PIR IA. However, it is desirable that the following points should be covered:
- problem under consideration;
 - rationale for intervention;
 - policy objective;
 - costs and benefits of the policy;
 - risks and assumptions;
 - direct costs and benefits to business calculations (following OIOO methodology);
 - wider impacts;
 - indication of resources used to undertake the PIR; and
 - results of your PIR.
- 7.13 Some of the points above should reproduce the analysis set out in IAs at earlier stages.
- 7.14 The information and analysis set out in the 'Evidence Base' section will vary significantly according to the intensity with which the review has been carried out.
- 7.15 Nevertheless, the PIR stage 'Evidence Base' section would normally be expected to cover (very briefly, where appropriate) the following topics:

- how the review was carried out (what resources were considered appropriate and why; how long the review took; what information was obtained; who was consulted);
- if individual Statutory Instruments or IAs have been ‘bundled’ into a single PIR, the reasons for this approach;
- the views of stakeholders and enforcement bodies as to the effectiveness of the implementation of the policy;
- information used in carrying out the review (e.g. information collected during routine monitoring, information obtained for the purposes of the PIR, any relevant evaluations carried out by other parties);
- (where relevant) comparisons to implementation in other EU member states, and any Gold-Plating identified;
- the overriding question: whether the policy is working as intended;
- (where appropriate) what the costs and benefits are in hindsight and going forward; and
- any policy conclusions arising from the review, including any recommendations for further actions or evidence-gathering.

7.16 Further guidance is provided in the following paragraphs.

Proportionality and likely benefit

7.17 As set out in the IA Guidance, resources devoted to PIR should be proportionate to the likely benefits accruing from PIR. It is for Departments to assess the likely benefits and determine their approach to PIR. However, the likely benefits of a PIR are driven by two main factors:

- a) the impact of the policy; and
- b) the ability of the Department to change policy in response to lessons learned.

7.18 The Department’s assessment of ‘likely benefit’ should feature in the explanation of the Department’s planned approach to PIR (see [Chapter 8](#)). Therefore an assessment of ‘likely benefit’ of PIR should ideally be carried out at or before consultation stage.

7.19 When a PIR is carried out, its primary focus should be on whether the policy has had the intended effect, setting out any unintended consequences that may have been observed. These are two of the main ‘likely benefits’ of undertaking PIR.

7.20 The first driver of PIR benefits, policy impact, requires a subjective assessment of the extent to which the policy is important to stakeholders, to society and to the achievement of the Department's objectives. Factors relevant to the prioritisation of PIRs include the following:

- the size of the costs and benefits compared to the baseline position;
- whether there is a high impact on a particular sector or group;
- whether the policy is key to delivering the Department's objectives;
- the degree of feedback from stakeholders;
- whether the policy is especially contentious or politically significant;
- whether there is a significant environmental impact; and
- whether the policy mechanism is innovative or uncertain, such that there is high uncertainty as to whether outcomes will be achieved.

7.21 The second driver, the Government's ability to effect change, is also important. The most obvious example limiting potential to change policy is where the policy under review is an EU directive which the UK is obliged to transpose under strict EU guidelines. However, the fact that a policy derives from EU law does not in itself mean that there is no opportunity to change it.

7.22 Following the adoption of 'Guiding Principles for EU legislation':

- new Regulations implementing EU obligations will include a duty for Ministerial review every five years;
- where it is relevant, existing Regulations implementing EU obligations should also be considered for review;
- where possible, the review should be combined with other planned reviews by the European Commission (Commission) so that the UK outcome can be used to influence the Commission; and
- reviews for similar directives or Regulations could be grouped together where appropriate.

These are new duties aimed at improving transposition and enforcement and learning from the practical experience both in the UK and in other European countries while ensuring the UK continues to meet its EU obligations.

- 7.23 Where Departments can learn from how their counterparts in other European countries have transposed directives, Departments should consider aligning their transposition to ensure British interpretations of European law are not unfairly restricting British companies. Where the UK review is not aligned with an EU review it may still offer evidence that the Commission should look again at the EU measure. Where relevant, a review may be undertaken after less than five years.
- 7.24 Resources devoted to PIR are expected to fall along a wide spectrum. The two ends of the spectrum are discussed further below; in practice many PIRs will fall between the extremes.

Desktop reviews

- 7.25 Where the likely benefit of a PIR is assessed as falling at the low end of the scale, a 'desktop review' is likely to be appropriate. Such reviews are expected to be quick and efficient.
- 7.26 You should set out in the 'Evidence Base' section a summary of how the review was conducted. In a desktop review it should be sufficient to state that the review was carried out by collating previously-available evidence, including the known views of stakeholders and enforcers.
- 7.27 In order to carry out a desktop review you should collate information collected during monitoring. It may also be helpful to find out whether the policy has been evaluated by a third party, or whether comparable policies in other countries (especially EU) have been evaluated.
- 7.28 In carrying out a PIR you must take into account the views of stakeholders as to the effectiveness of policy implementation. The aim of eliciting stakeholder views for a PIR is not to reopen the original debate over the policy intent, but to find out whether the policy has been implemented in the most effective and efficient way possible. Those subject to Regulation and those enforcing Regulation are often best placed to answer this question.
- 7.29 In carrying out a desktop review:
- where you have reliable current evidence of their views, no further stakeholder engagement is expected; but
 - where you do not, you should contact a sample of stakeholders and enforcers to elicit their views on the effectiveness of policy implementation and how it might be improved.
- 7.30 The overriding question to be addressed in a PIR is: is the policy working as intended? This breaks down into a number of subsidiary questions. For a desktop review you should consider at a minimum:
- To what extent has the policy achieved its objectives?
 - To what extent have the success criteria been met?

- To what extent have there been unintended consequences?

7.31 All PIRs should address the questions of whether the policy is working as intended. Some qualitative evaluation of the actual costs and benefits is intrinsic to this question, but a 'desktop review' will not, in most cases, be expected to include a full re-estimation of actual costs and benefits. The recommended approach is to ask the question: do I have reason to believe that the expected costs or benefits were materially inaccurate? If the answer is yes, it is likely to be proportionate to amend the estimates, consistent with the principle of proportionality set out in [Chapter 2](#).

High-intensity PIRs

7.32 Where the likely benefits arising from a PIR are assessed as high, a higher-intensity PIR is expected. For example, in most cases, policies imposing burdens above £50m a year should be subject to a full review. The resources devoted to a full-scope review are likely to be significant. Such PIRs are likely to be formally managed as projects. For example, the review of the 'Companies Act 2006' is expected to take 1.4 person-years.

7.33 The questions to be addressed in a full review will be determined during the scoping phase of the project, but a full review should normally consider the following questions, in addition to those addressed during a desktop review:

- To what extent was the causal mechanism linking the intervention with the desired outcome effective?
- Hence, what scope is there for simplification, improvement or deregulation?
- What are the costs and benefits, in hindsight? and going forward?
- (if relevant) Have the expected admin burden reductions been realised?
- Is government intervention still required, in light of changing circumstances?
- Do compliance levels indicate that the enforcement mechanism chosen is appropriate?

7.34 The methods you use to answer these questions will depend on the circumstances. The Government Social Research Unit's Magenta Book provides detailed guidance on social research methods for policy evaluation. You may also wish to refer to the [Green Book](#) or talk to your economists.

7.35 In conducting a full-scope review you are also expected to:

- re-examine each of the relevant Specific Impact Tests; and

- re-estimate the monetised costs and benefits.
- 7.36 You should consult stakeholders and enforcers, having regard to the Government's '[Code of Practice on Consultation](#)'.
- 7.37 When conducting a PIR of policies implementing EU obligations, you should compare implementation practice with at least two other major member states to draw lessons on implementation and enforcement.
- 7.38 This comparative exercise may also help identify occasions where UK implementation has inadvertently gone beyond the minimum necessary to satisfy our EU obligations.
 - It is the Government policy to avoid over-implementation ('Gold-Plating') unless there are exceptional circumstances and the benefits demonstrably outweigh the costs (see the [Transposition Guide](#)) and only then after clearing the policy through the Reducing Regulation Committee ([RRC](#)).
 - Where a PIR identifies an inadvertent example of Gold-Plating, the PIR IA should either prompt a recommendation to change the policy implementation to remove the Gold-Plating, or an explanation of why not such recommendation is being made.

Bundling

- 7.39 In many instances it will be an efficient use of resources to bundle together several items in a single review.
 - One advantage of 'bundling' policies together is to allow policy-makers to evaluate the cumulative burden arising from related policies, a perspective that is not possible when policy instruments are reviewed on a piecemeal basis.
 - Another advantage is that an aggregate perspective is required for the purposes of [Post-Legislative Scrutiny](#) of Acts. Preliminary assessment of a statute for this purpose is expected to cover how the principal delegated legislation under the Act has worked in practice. It is expected that in many cases Post-Legislative Scrutiny and PIR will be carried out as a single exercise.
- 7.40 Where a decision is taken to bundle together policies into a single review, the reasons for that decision should be given.

Lessons learned and further actions

- 7.41 Policy is generally formulated in conditions of uncertainty and limited information. In reality, therefore, there will almost always be unintended consequences. Identifying these provides opportunities to learn lessons from experience.

- One of the main aims of a PIR is to identify lessons to be learned. Any lessons should be set out in the 'Evidence Base' section. Lessons that might have more general application should also be communicated within Departments, e.g. to the Department's economists and Better Regulation Units.
- Despite effective consultation and stakeholder engagement during the policy making process it can be difficult to predict the response of the regulated to newly implemented Regulations which can often result in unexpected side-effects. Policy-makers often draw lessons about enforcement mechanisms in the period immediately after implementation, and guidance can usually be improved to reflect early experiences.
- Where there is a material difference between the outcomes intended and those observed, there may be good reason to suggest that the policy, or the implementation strategy, should be amended.
- The 'Evidence Base' section should clearly set out proposed future actions arising as a result of the review.

[Back to contents](#)

Chapter 8: COMPLETING AN IA TEMPLATE: ANNEXES

Annex 1: Post-Implementation Review Plan

- 8.1 Annex 1 of the IA template (at all stages other than at the PIR stage) is dedicated to the PIR plan.
- 8.2 At the consultation stage you will need to provide a high level idea of your proposed approach to PIR and depth of analysis. Setting out a PIR plan at consultation stage will allow Departments to seek endorsement of their proposals for a proportionate review. Stakeholders' views expressed during consultation may help inform your plan for PIR. At the final and enactment stages, your proposed plan for a PIR is likely to be refined and more concrete.
- 8.3 Setting out a plan for PIR will also help ensure that scheduled PIRs are taken into account in Departments' business plans.
- 8.4 The resources devoted to PIR should be proportionate to the likely benefits of such a review (see [Chapter 7](#) for a discussion of factors relevant to that assessment). The PIR plan will depend on the likely benefit expected:
 - you should therefore first assess the likely benefit of the PIR of the policy, and summarise this assessment in the 'Review approach and rationale' field; and
 - you should then draw up a plan for PIR that is consistent with this assessment, and summarise it in Annex 1.
- 8.5 It is essential to devote adequate consideration, during the policy development process, to how the policy will be monitored during implementation. Monitoring is a core element of sound policy making (a key stage in the [ROAMEF](#) policy cycle). The more routine monitoring is carried out, the more straightforward is the PIR process.
 - Monitoring should at the very least involve keeping in regular contact with representatives of those subject to Regulations and with agencies responsible for enforcement.
 - It may also include routine collection of data, for example relating to compliance rates, pecuniary costs, success indicators etc.

Annex 1: Post-Implementation Review (PIR) Plan

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause, or a duty to review, or there could be a political commitment to review (PIR)];

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final IA; criteria for modifying or replacing the policy if it does not achieve its objectives]

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

Other Annexes

- 8.6 Where the tests yield information relevant to an overall understanding of policy options, results may be annexed to the IA.

[Back to contents](#)

Annex 1: PUBLICATION AND QUALITY ASSURANCE OF IMPACT ASSESSMENTS

A1.1 Publishing IAs at Different Stages

- A1.1.1 As detailed in [Chapter 2](#), the IA Guidance sets out that there are certain points or stages within the policy making process where an IA must be formally produced and published.
- A1.1.2 Departments must publish all IAs (consultation, final, enactment and PIR) on the existing [IA library website](#).
- A1.1.3 Authorised users should follow the simplified manual loading of IAs of the [BRE admin system](#) to load all post-elections IAs on to the IA library.
- A1.1.4 While the IA library will be the main vehicle for stakeholders to access published IAs, you may also wish to publish the IA with its associated documents on your Department's website.
- A1.1.5 IAs relating to primary legislation (i.e. Bills) should be sent electronically to the House of Commons Library (email: impactassessment@parliament.uk) at all stages.

Any enquiries can be emailed to impactassessment@parliament.uk.

- A1.1.6 An IA should accompany the introduction of a Bill to either House of Parliament. A revised IA will be required at each stage of a Bill's passage through Parliament where there are significant changes to the substance of the Bill which change the estimates of the costs and benefits. In addition, the explanatory memorandum to the Bill must include a summary of, or reference to, the IA. You must include a reference to where the complete IA can be obtained using the following standard form of words:

“The final proposal stage Impact Assessment of the costs and benefits that this Bill would have is available at[insert a list of those places in Parliament where the IA is available]”

- A1.1.7 The enactment stage IA must present the impacts resulting from the enacted legislation.
- A1.1.8 The explanatory note accompanying a Statutory Instrument should say that an IA is available, and from where it can be obtained.
- A1.1.9 When Statutory Instruments are directly linked to primary legislation or are laid under powers created by earlier primary legislation or which is itself the subject of an IA, Departments must ensure that the new Statutory Instruments IA contains on the costs attributable to the

Statutory Instruments, rather than a duplication of the total costs of the primary legislation.

A1.1.10 When Statutory Instruments concern a particular change distinct from the provisions of the primary legislation, a new IA should be published in the usual way.

A1.1.11 For all Bills and Statutory Instruments to be debated in Parliament, 50 copies of the IAs should be sent to the 'Vote Office' and 10 copies to the 'House of Lords Printed Paper Office'. IAs should also be made available to relevant 'Standing Committees'.

A1.1.12 European legislation – an IA must accompany all explanatory memoranda submitted to Parliament.

A1.1.13 For Private Members' Bills that the Government is planning to support, or is not intending to oppose, produce an IA by the date set down for second reading. It is also good practice to prepare an IA for a Private Member's Bill being opposed, in order to obtain the evidence to justify the objection to the Bill.

A1.2 Quality Assurance and Clearance of IAs

A1.2.1 The IA is a policy decision making tool, better IAs should lead to better decision making. Good practice in IA development includes early engagement with stakeholders, and with departmental analysts and economists to ensure good quality analysis informs policy formation.

A1.2.2 It is the responsibility of Departments, in the first instance, to ensure the quality of analysis of their own IAs by setting up robust departmental processes to that effect.

A1.2.3 The [Minister](#) is required to sign off public IAs. Departments must facilitate these declarations by involving the relevant policy officials, their economists and other analysts from the early stages of policy development and by operating sound procedures for advising Ministers.

A1.2.4 Robust departmental sign-off process might be required. These could include Ministerial challenge panels, internal sign-off mechanisms; peer group review by economists; use of external panels of key stakeholders or professional experts to review the evidence; or a requirement that Chief Economists are consulted on all submissions to Ministers that address policy matters that would normally also require an IA (a Chief Economist review).

A1.2.5 Chief Economists should sign off the robustness and accuracy of the costs, benefit and impact analysis at the different stages; this is an internal sign-off mechanism and does not imply the approval of the policy proposal itself.

- A1.2.6 Collective Ministerial clearance through the [RRC](#) is required for all regulatory and de-regulatory measures. Policy proposals also require consideration by a cabinet committee where they may raise major policy concerns, are likely to lead to significant public comment or criticism, or where the subject matter affects more than one Department. Policy clearance processes therefore include clearance of consultation, final and enactment IAs before publication.
- A1.2.7 Better Regulation Units should be the first port of call for assistance on your regulation related questions.
- A1.2.8 The BRE, in its cross-government role, works with Departments to provide ongoing practical support for policy-makers, including the sharing of best practice. Each Department has a BRE relationship manager who can be consulted on detailed aspects of policy and IA development and will be able to support you in improving your use of IA.
- A1.2.9 One of Parliament's constitutional functions is to oversee the executive. Accordingly, Parliament may take an interest in the analysis supporting proposed Regulation and in how Regulation has worked in practice. In practice IAs are most likely to be scrutinised by Parliamentary committees, such as 'House of Commons Select Committees' and the 'House of Lords Committee on the Merits of Statutory Instruments'. Although such events are likely to be rare, in principle either house has the power to send back secondary legislation where it considers a proposal to be inadequately reasoned or evidenced.

The Regulatory Policy Committee

- A1.2.10 The RPC is an independent advisory body sponsored by the 'Department for Business, Innovation and Skills' that has been invited by the Government to scrutinise and comment on the quality of analysis supporting policy decisions on new Regulations, and on whether the policy design will ensure the benefits justify the costs, including:
- i. the accuracy and robustness of the costs and benefits;
 - ii. whether the range of policy options assessed support minimising costs and maximising benefits; and
 - iii. the degree to which issues of public risk and the practicalities of ensuring compliance are taken into account.
- A1.2.11 The RPC does not comment on the Government's policy objectives, which are a matter for Ministers, but focuses on the cost-effectiveness of the instruments to deliver them. While its role is purely advisory, with ultimate decision making being retained by Ministers, it can

comment publicly on whether the Government has been effective in minimising the costs of measures and maximising the benefits, and on whether the benefits justify the costs.

A1.2.12 The IA is the main tool by which the RPC makes its assessments. The RPC has been asked by the [RRC](#) to review and issue an opinion on the quality of the evidence and analysis in an IA prior to it being submitted to the RRC.

A1.2.13 IAs on regulatory policies sent to RRC should be accompanied by the RPC opinion. Only policies with an IA cleared by the RPC as 'fit for purpose' should be sent to the RRC for clearance. Further details are available on the [RPC's website](#).

Other external stakeholders

A1.2.14 IAs are available to stakeholders and the general public through their publication on the [IA library](#). Stakeholders who will typically take a high level of interest in published IAs include:

- business organisations such as the 'British Chambers of Commerce' and the 'Institute of Directors';
- think tanks and pressure groups;
- academics;
- the general public.

[Back to contents](#)

Annex 2: VALUATION OF COSTS AND BENEFITS OF THE POLICY OPTIONS

This annex provides a general overview to valuation of costs and benefits of the options including:

- coverage of costs and benefits to be included in an IA;
- a brief introduction to estimating costs and benefits;
- other aspects of valuation relevant to an IA such as discounting and an outline of those groups affected you may need to consider; and
- proportionate analysis.

A2.1 Valuing Costs and Benefits

- A2.1.1 The relevant costs and benefits to the UK economy of all options should be valued, where it is proportionate to do so, and the net benefits or costs calculated. The decision maker can then compare the results between options to help select the best. It is important to avoid being spuriously accurate when concluding from, and presenting the results of, data generated by the appraisal. However, the confidence in the data provided by the analysis will need to increase, depending on the importance or scale of the decision at hand (for instance, depending on how much resource will be committed by the decision) and as the policy making process progresses.
- A2.1.2 In this context, relevant costs and benefits are those that can be affected by the decision at hand. Although they will vary depending on the scope of the proposal, some general principles apply. It is useful early on in the appraisal process to consider widely what potential costs and benefits may be relevant.
- A2.1.3 Costs and benefits considered should normally be extended to cover the period of the policy intervention. For further details on time periods see [Chapter 5](#) and [Annex 2](#).
- A2.1.4 Costs and benefits should normally be based on market prices as they usually reflect the best alternative uses that the resources could be put to (the Opportunity Cost).
- A2.1.5 Wider social and environmental costs and benefits for which there is no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be quantified.

- A2.1.6 Economic transfers should normally be included in the analysis as a cost to the organisation bearing the cost and as a benefit to those receiving the transfer¹¹.
- A2.1.7 When planning to introduce a Regulation, cost and benefits should assume 100% compliance, unless there is evidence of the contrary. However, differing levels of compliance should also be investigated through Sensitivity Analysis (see 'Testing Your Assumptions' below). When planning to remove a Regulation, costs and benefits should be based on actual levels of compliance.

A2.2 Coverage of Cost and Benefits

- A2.2.1 The **first-round** impacts of proposed measures should be identified, and where possible estimated, in all IAs. For example, if a proposal requires firms in a particular industry to buy new safety equipment, the Economic Costs to society can be measured by the costs to the firms (both in money and extra management and training time) of buying and using the new equipment; and the benefits to society of the health benefits (measured as improvements to health quality and statistical lives saved).
- A2.2.2 As part of this it will be important to capture any first-round **distributional effects** (e.g. if the proposal disproportionately affects small firms or the benefits accrue to a particular group); or **competition effects** (e.g. if the proposal will significantly reduce the number of firms operating in the industry).
- A2.2.3 There will also be a few proposals which have a sufficiently large and widespread impact to merit estimating their **macroeconomic effects**, e.g. the introduction of the minimum wage. Consult HM Treasury for advice on estimating any macroeconomic impacts if you think your proposal might fall into this category.
- A2.2.4 It may not be necessary to record **second-round effects**; where they will be important and informing the policy decision it will be important to identify them, and quantify or forecast them where they are expected to be significant. For example, the extent to which firms will pass on extra costs to their suppliers or customers or reduce the wages they pay or their profits. Effects on jobs in other countries or foreign trade are not normally relevant to the analysis, since displaced workers would be expected to find other jobs and trade will be brought back into balance by changes in domestic or foreign demand or prices.
- A2.2.5 Second-round effects are often difficult to estimate and are likely to be speculative, and often represent simply a re-distribution of resources within the economy, without any net overall economic effect.

¹¹ Transfers to the Exchequer resulting from tax changes are not presented in impact assessments but are published in the Budget Red Book.

However, an important case relates to where a proposal would **remove a Market Failure** in an affected industry. For example, regulations allowing the use of electronic signatures on legal documents might allow a more efficient expansion of information and communication technologies that was previously held back by unnecessary requirements for paper documents.

- A2.2.6 It might, however, be worth trying to quantify second-round effects in some circumstances. For example, if there are likely to be significant **transitional** or **regional** effects, these should be mentioned (e.g. if a large industry would close down in an isolated area and there is likely to be prolonged local unemployment) and any measures to mitigate these effects should be noted.
- A2.2.7 Similarly, significant **spill-over or demonstration effects** should also be identified. For example, if a proposal to restrict storage of goods on industrial premises increased freight movements, the extra road congestion could have negative spill-over effects on the rest of the economy. Alternatively, a Regulation which requires the adoption of new machinery or technology might have a beneficial effect on the supply chain.
- A2.2.8 Any consideration of second-round effect should be balanced, since highlighting selected second-round effects could bias the analysis. Even if there are no overall economic effects, distributional effects might be important and should be noted in the 'Summary: Analysis and Evidence' and 'Evidence Base' pages. In describing such distributional effects, it will be important to **list both gainers and losers**, to avoid giving the impression that there is an overall positive or negative effect.

A2.3 Estimating Costs

- A2.3.1 Costs should be expressed in terms of relevant Opportunity Costs – it is important to explore what opportunities might exist. Estimates of costs should be **forward looking**. Costs which have already been incurred and are irrevocable are '**sunk**', and can be ignored because they do not have any impact on decisions.
- A2.3.2 Regulatory costs may be grouped into two broad categories: **Administrative Burdens** and **Policy Costs**.
- A2.3.3 Administrative Burdens (often referred to as red tape) include costs associated with familiarisation with administrative requirements, record keeping and reporting, including inspection and enforcement of Regulation. The [Standard Cost Model \(SCM\)](#) provides a framework for measuring the Administrative Burdens of Regulation.
- A2.3.4 Policy Costs are the essential costs of meeting or complying with the policy objectives and includes all costs which are not Administrative

Burdens. These may include the additional costs involved in purchasing new equipment, maintaining the equipment and undertaking specified training in order to meet the Government's regulatory requirements.

- A2.3.5 The separation of Policy Costs and Administrative Burdens is important – this can shed light on the extent to which it may be desirable to find alternative policy options or help identify things that might otherwise be missed, particularly at the early stages of the IA. When Policy Costs and Administrative Burdens are compared, this provides some idea about how efficiently the policy can be implemented and therefore how well it is designed.
- A2.3.6 Not all Policy Costs appear as direct expenditure for business. Some Regulations, for example, those involving approval processes, may impose costs by delaying decisions. Delay-related costs include standby costs (capital and labour down time) and holding costs (interest on loans, rent, material procurement, builder contract costs, additional consultancies and lost business opportunities). Cost may also be incurred if a firm is unable to deliver on time or is perceived as an unreliable supplier. While unnecessary delays can impose a direct cost on affected businesses they can also add to uncertainty for an investment because other businesses may factor the possibility of delays into their investment decisions.
- A2.3.7 An important Policy Cost to consider is **Financial Cost**. Financial costs are the result of an obligation to transfer a sum of money to the Government or relevant regulatory body. Such costs include administrative charges and licence fees.
- A2.3.8 Similarly, **market costs** are those indirect costs that arise from the impact that Regulation has on market structure or consumption patterns. For example, the costs of seeking and obtaining environmental approvals may discourage new firms from entering an industry, thereby discouraging competition and reducing the choices available to consumers. Regulation can also discourage or delay innovation.
- A2.3.9 Some costs will be easier to estimate than others – e.g. increased labour costs. Ask your economists for advice **as early as possible**. Examples of the techniques you can use to put monetary value on the costs include:
- **labour costs** – (familiarisation with new legislation, training, new working practices, time spent taking inspectors around the firm etc). Full time equivalent (FTE) costs should be used to estimate the costs of employee's time to the employer and should include pensions, national insurance and allowances, as well as basic salaries;

- **cost of new equipment or new production processes** – formal/informal consultation with those likely to be affected might provide the best data here;
- **collecting information and providing proof of compliance** – use labour costs, plus the cost of new equipment required to do this;
- **cost of getting licences** – these will involve estimating the fees plus Administrative Burdens. Enforcement authorities should be able to help with providing estimates;
- **cost of extra legal, accountancy or other consultancy advice** – again consultation or colleagues' experience might be informative; and
- **indirect costs** – ie costs not directly attributable to the intervention – may need to be considered. There may be changes in behaviour such as fewer firms setting up in business, reduced consumer choice, less competition between firms, less innovation etc.

A2.4 Estimating Benefits

A2.4.1 Benefits need to be estimated to assess whether the costs of pursuing a policy can be justified.

A2.4.2 Conceptually, the benefits of Regulation can be measured by individuals' willingness to pay for an improvement caused by Regulation (e.g. safer travel), or their willingness to accept compensation for not receiving the improvement.

A2.4.3 Market prices should be used to estimate the value of benefits. For example:

- time savings can be measured by the hours saved multiplied by an estimate of wages;
- the benefits from training might be estimated using estimates of the firms' increased revenue; and
- there may be some evidence of the costs of something that Regulation is intended to reduce. For example, there are measures of the costs (medical expenses and time off work) faced by people who suffer from food poisoning.

A2.4.4 However, market prices may not always be available to estimate the value of the benefits and they have to be measured indirectly. For example:

- revealed preference measures infer valuations from behaviour. For instance, expenditures that households make on noise insulation may indicate the value they attribute to a Regulation to reduce noise; and

- surveys can be used to ask people what they would be willing to pay for the benefits of a Regulation which, for example, improves the environment or leads to a more equal distribution of income.

A2.4.5 Annex 2 of the [Green Book](#) outlines techniques for valuing non-market impacts. Consult your economists for advice as early as possible about putting a monetary value on the benefits.

A2.5 Sectors and Groups Affected

A2.5.1 You need to consider how each option might impact on different sectors and groups. The options under consideration may have beneficial impacts on some groups and negative impacts on others.

A2.5.2 It is important to be as specific as possible and to work with stakeholders to validate assumptions. All significant groups affected by the options should be considered. Use informal consultation at an **early stage** to help identify groups likely to be affected.

A2.5.3 Include groups that benefit as well as those that bear costs, including those affected directly and indirectly. For example, a policy to reduce pollution will have a direct effect on a polluter who has to behave differently, but may have an indirect effect on the general population in the longer term as pollution is reduced and the environment improves.

A2.5.4 Identify where different options impact on different groups and consider whether the options change the distribution within and between groups.

- Think about the impact on **businesses** – specific industries, firm types and businesses of different sizes. Many business sectors have representative organisations which will be willing to help you complete this section of your IA. The Trade Association Forum aims to assist Departments, among others, to access information about UK trade associations and business sectors.
- Make clear where impacts will be different for different parts of the industry (e.g. banks and building societies, rather than financial advisers), or different parts of a supply chain (e.g. manufacturers, rather than wholesalers or retailers). Standard Industrial Classification (SIC) codes are a widely recognised means of classifying business establishments by their type of economic activity. By using these codes you can ensure clarity. An index of the SIC codes can be found at [Office for National Statistics: Standard Industrial Classification codes](#).
- Understanding how **markets** are affected by the policy options is important. Comprehensive guidance on the conceptual framework, examples, and discussion of practical issues are

provided at [Office of Fair Trading: Guidelines for Policy Makers](#) website. See the separate section on Competition Assessment for assistance in answering whether the proposals are likely to prevent, restrict or distort competition in any of the affected markets.

- Policy options might also have an effect on the **voluntary, public and charitable sectors** and it is important that these are duly considered. Colleagues elsewhere in the Government may already have links with these organisations so you might be able to use their contacts. Alternatively, contact organisations directly. The [National Council for Voluntary Organisations](#) could be a useful starting point.
- **Vulnerable and equalities groups** – see [Specific Impact Tests](#).

A2.6 Discounting Costs and Benefits Occurring Over Time

A2.6.1 It is likely that most regulatory proposals will impose costs and have benefits that accrue over a number of years. Discounting is a technique used to compare costs and benefits that occur in different time periods. It is a separate concept from inflation, and is based on the principle that, generally, people prefer to receive goods and services now rather than later. This is known as ‘time preference’.

A2.6.2 Calculating the Present Value of the differences between the streams of costs and benefits provides the NPV of an option – the primary criterion for deciding whether government action can be justified.

A2.6.3 The **recommended Discount Rate is 3.5%**¹². For projects with very long-term impacts, over thirty years, a declining schedule of Discount Rates should be used rather than the standard Discount Rate. The schedule of long term Discount Rates is shown in Annex 6 of the [Green Book](#).

A2.6.4 The Present Values and Discount Rate table shows how the Present Value of £1,000 declines in future years with a Discount Rate of 3.5%.

¹² However, it is considered that individuals place an increased value on health and safety benefits as their living standards increase. This leads, currently, to an effective discount rate for health and safety benefits of 1.5%. It is considered that the value of preventing a fatality has a constant utility value over time and it is therefore uprated in real terms each year by real GDP per capita growth (i.e. currently, by about 2% per year, since at the moment the real per capita GDP growth is forecast at around 2% per annum). This uprating, coupled with a 3.5% discount rate, gives an 'effective' discount rate for health and safety benefits of 1.5% (lower effective discount rates apply to health and safety benefits accruing more than 30 years into the future). It needs to be noted that the real per capita GDP growth forecast could change over time. For further details see the Green Book Annex on Discounting.

Present Values and Discount Rate

Time period (mid year)	PV of payment (mid year) $r = 3.5\%$
0	£1,000
1	£966
2	£934
3	£902
4	£871
5	£842
6	£814
7	£786
8	£759
9	£734

Year 0 is the present or current year.

The Present Value of a value in year t is calculated as $PV = \frac{Value}{(1+r)^t}$

For example, the PV of £1000 in year 4 = $\frac{1000}{(1+0.035)^4} = £871$

A2.6.5 The **number of years** that the proposal should be discounted over depends on the policy proposal. It is recommended that the choice of appraisal period is thought through with some care. Use the appropriate appraisal period and where this is not identifiable after serious thought, a ten-year period should be used for the analysis. In addition, a number of other factors should be taken into account:

- if the main cost is the purchase of a piece of equipment then the expected lifetime of that equipment could be used;
- where the Regulation is subject to a sunset (expiry) provision, if it is intended that the Regulation will be renewed¹³ then the time period should reflect the expected life of the policy, not the sunset date;
- for Regulations that are not expected to be renewed, because they are only intended to have a temporary effect, the time period should be set to cover the period it is intended that they shall have effect; and
- if the costs or benefits are likely to appear well into the future, you might want to consider a longer timescale.

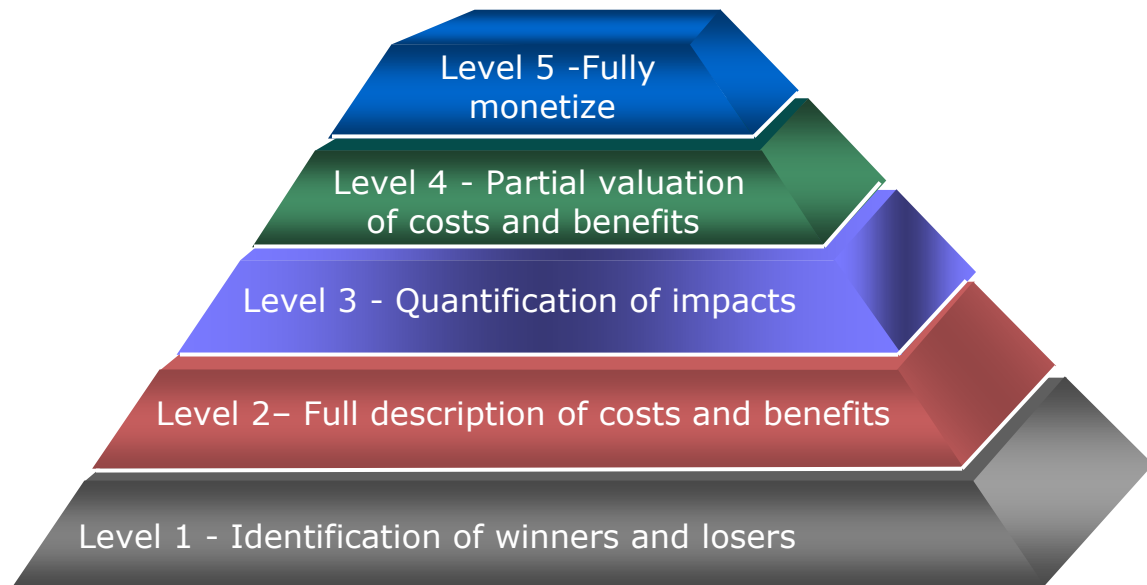
A2.6.6 Your departmental **economists** can help with this process. See also Annex 6 of the [Green Book](#).

¹³ This applies if the policy is intended to remain in effect beyond the sunset date.

A2.7 Proportionate Analysis

- A2.7.1 The effort applied at each step of completing an IA, in particular the estimation of cost and benefits, should be proportionate to the scale of the costs and benefits, outcomes at stake, and the time available. A less detailed IA may be adequate where a regulatory proposal is likely to affect only a few firms or organisations, or many firms or organisations but only to a negligible degree, and the costs and benefits are likely to be negligible. By the same token, more data and analysis will be required where the impact is expected to be substantial.
- A2.7.2 As you move through the policy making process and progress the different stages of the accompanying IA, the quality of data being used and depth of analysis should be refined to make it more specific to the proposals, and to improve its accuracy. For example, at the development stage of an IA it may be necessary to use summary data only when identifying and appraising options. However, at later stages of the IA process, the rigour of the analysis should increase – especially before committing significant funds or making major regulatory decisions.
- A2.7.3 The principle of proportionality does not determine whether an IA should be undertaken or a PIR carried out, only the scale of effort required to complete it.
- A2.7.4 The depth of analysis for a PIR should be proportionate to the likely benefit of conducting the review. A high-impact policy should be subject to a full PIR, including an evaluation of the actual costs and benefits as a result of the policy. In many cases a less detailed review will be appropriate – see [Annex 9](#).
- A2.7.5 The diagram below sets out the depth of analysis that could be carried out during IA;
- level 1: include a description of who will be affected by the proposals. The main groups affected will include business, public sector and consumers;
 - level 2: include a full description of the costs and benefits;
 - level 3: quantify the effect (e.g. 1000 planning applications per year, 100 hours of management time, 500,000 new houses built per year);
 - level 4: monetise the effect. It may be the case that the costs but not benefits can be monetised. The use of indicators may help further qualify non-monetised costs and benefits; and
 - level 5: monetise fully all costs and benefits.

A2.7.6 In addition, all IAs should indicate an order of magnitude estimate of the expected costs and benefits of the proposed intervention, or deregulatory action. These estimates should be refined to reflect higher levels of accuracy as the policy development progresses over time.



[Back to contents](#)

Annex 3: KEY ASSUMPTIONS, SENSITIVITIES AND RISKS

A3.1 Risk, Uncertainty and Unintended Consequences

- A3.1.1 The Better Regulation Commission report on [Risk, Responsibility, Regulation: Whose Risk Is It Anyway?](#) suggested that the way the United Kingdom manages risk is leading to regulatory overkill.
- A3.1.2 It is important, therefore, that the risks and how likely they are to occur, should be considered in the appraisal.
- A3.1.3 The ‘Summary: Intervention and Options’ section of the IA asks you to identify the rationales for market intervention, including tackling public risks. You therefore need to be concerned not just with the risk of policy delivery but also the public risks¹⁴ that the policies are seeking to address. These can pertain to public health but are also relevant in terms of lost welfare of any sort brought about by Market Failure or equity issues.
- A3.1.4 Understanding and correctly analysing these public risks (be they actual or perceived) is vital. Examining the motivations and behaviour of individuals, groups or organisations at play on an issue and potential unintended consequences from an intervention is also key. The Risk and Regulation Advisory Council have developed a useful tool to help you understand those organisations that have influence on the Government’s policy development, the [risk landscape](#).
- A3.1.5 Further advice is available at:
- [The Risk and Regulation Advisory Council’s final report and tools](#)
- [HM Treasury: Managing risks to the public: appraisal guidance](#)
- [Strategy Unit: Risk: Improving government's capability to handle risk and uncertainty](#).
- A3.1.6 The ‘Summary Analysis and Evidence’ page of the IA template asks you to highlight key assumptions underpinning the analysis; sensitivities of the estimates to changes in the assumptions; and risks, and how significant they might be, to policy delivery. You should briefly describe the consequences of the risks – could they stop the policy from meeting its objectives?
- A3.1.7 You might consider making changes to the options so as to reduce these risks.

¹⁴ Risks that may affect any part of society and to which government is expected to respond.

- A3.1.8 In addition, consider any possible **unintended consequences** for each of your options. Consider what could go wrong or how the policy could turn out better than expected and how this would affect the costs and benefits. These are not easy to predict but if you start thinking about them early it will help you to minimise problems and deliver your policy objective more successfully.
- A3.1.9 The Risk and Regulation Advisory Council's [risk landscape](#) can help you to think about the inter-related nature of circumstances that has led to an issue arising and how to identify unintended consequences and impacts. Further information on structuring thinking to consider the wider implications of an intervention can be found in the Cabinet Office's [Strategy Survival Guide](#).

A3.2 Testing Your Assumptions

- A3.2.1 It is impossible to predict the future with total accuracy. To deal with risk and uncertainty you should **state clearly what assumptions** you have made, and provide references to any data sources or methodologies used. These should be tested to ensure your final recommendation is not driven by a particular assumption. You should identify any specific risks or areas of uncertainty that may impact on the levels of costs and benefits.
- A3.2.2 For risks, where it is possible to assign a probability to an event happening (e.g. the risk of fire or accident), you should use this to estimate the expected costs and benefits, i.e. the Best Estimate. Often it is not possible to assign a probability to an event. You should use Sensitivity Analysis to analyse the impact of a number of different scenarios in which your assumptions are varied.
- A3.2.3 **Sensitivity Analysis** around key variables is a fundamental aspect of appraising options. It is aimed at testing how vulnerable the options are to uncertainties. For example, 'switching values' should be calculated to demonstrate how much benefits would need to fall (or costs to rise) to make it no longer worthwhile to proceed with the option.
- A3.2.4 It is relatively rare that adjustments for taxation are required, because similar tax regimes usually apply to different options. However, where tax regimes applying to different options vary substantially, this should not be allowed to distort comparison of the options.
- A3.2.5 When planning to introduce a Regulation, differing levels of **compliance** with your proposal should be investigated¹⁵. Although the central costs and benefits estimate should assume 100% compliance (unless there is evidence to the contrary) you should also explore the implications of lower compliance, and the costs of enforcing the proposal. It is important to understand what level of

¹⁵ Penalties that arise as a result of non-compliance should not be counted.

compliance is needed to deliver the identified objective of the policy. When planning to remove a Regulation, actual levels of compliance should be used to estimate costs and benefits. Sensitivities can be used where there is uncertainty around the actual levels.

- A3.2.6 There is evidence that policy-makers are often too optimistic when developing proposals. Optimism bias is the tendency for project appraisers to be overly optimistic, particularly by overstating benefits, and understating timings and costs. You should consider the impact of this '**optimism bias**' on your benefits and costs. This can be specifically allowed for in your analysis. The [Green Book](#) provides guidance on making explicit adjustment for this bias.

[Back to contents](#)

Annex 4: IMPLEMENTATION AND ENFORCEMENT

A4.1 Implementation

A4.1.1 The 'Evidence Base' section enables you to outline implementation and delivery plans covering the main issues for each option. These might include:

- ownership (e.g. who is responsible for implementation and who will make decisions?);
- the aims of implementation (focus on the policy objective and outcomes considered necessary, including success criteria);
- timetable for implementation (key decision points and milestones. Build in some flexibility);
- identification of stakeholders (who will be involved in implementation and who may be more widely affected?);
- communication strategy (including allowing for early warning to those who will be affected, especially small businesses and other organisations);
- risk analysis (consider risk management for the delivery and implementation of each option);
- enforcement and monitoring (this will affect delivery of policy objective and how success is reviewed);
- [OGC Gateway Reviews](#) (which examine how a programme or project will be organised to deliver its objectives); and
- how implementation will fit within existing initiatives, including those by other Departments and inspection agencies, and aggregated burdens).

A4.2.1 The IA Guidance provides information on Business Link: Common Commencement Dates.

A4.2 Enforcement

A4.2.2 When considering enforcement options, policymakers should consider the principles of the [Hampton](#) and [Macrory](#) Reviews and the joint guidance issued by BRE and the Ministry of Justice on creating new regulatory penalties and offences.

Hampton review principles

A4.2.3 Sir Philip Hampton's 2005 Review considered how to reduce unnecessary burdens on business, without compromising regulatory regimes. He set out some key principles that should be consistently applied throughout the regulatory system, including:

- regulators, and the regulatory system as a whole, should use comprehensive risk assessment to concentrate resources on the areas that need them most;
- all Regulations should be written so that they are easily understood, easily implemented, and easily enforced, and all interested parties should be consulted when they are being drafted;
- businesses should not have to give unnecessary information, nor give the same piece of information twice;
- the few businesses that persistently break Regulations should be identified quickly, and face proportionate and meaningful sanctions;
- regulators should provide authoritative, accessible advice easily and cheaply; and
- when new policies are being developed, explicit consideration should be given to how they can be enforced using existing systems and data to minimise the Administrative Burden imposed.

A4.2.4 More specific guidance on the application of these principles in practice can be found in the assessment framework developed by the National Audit Office and the BRE for the process of [Hampton Implementation Reviews](#).

Macrory review: sanctions

A4.2.5 The 2006 'Macrory Review of Regulatory Enforcement'¹⁶ found that regulators were over-reliant on criminal prosecution as a means of enforcement and recommended that regulators be given access to a range of alternative civil sanctions that would allow them to tackle breaches of Regulation in more proportionate, flexible and meaningful ways.

A4.2.6 In designing new enforcement regimes you will need to consider in particular whether the behaviour warrants the intervention of the criminal law at all, and what alternatives there may be to criminal offences. Professor Macrory envisaged that criminal prosecution should be reserved for the breaches of legislation which have serious consequences.

¹⁶ Regulatory Justice: Making Sanctions Effective (Final Report) November 2006.

- A4.2.7 In creating any new civil or criminal sanctions, you should consider the following points:
- the nature and potential harm of the conduct to be targeted;
 - what you are seeking to do about that conduct;
 - who you are targeting;
 - what existing sanctions might be available for that conduct;
 - whether there are any constraints on your choice between criminal offences and civil sanctions;
 - if you are consolidating existing offences, whether they are still necessary and proportionate.

A4.2.8 Part 3 of the 'Regulatory Enforcement and Sanctions Act 2008' (RES Act) provides a set of civil sanctions which can be applied to existing relevant regulatory criminal offences by statutory order. We would expect that new legislation creating regulators or offences that fall outside of the scope of Part 3 of the Act will make its own provision for civil sanctions, but should follow the Part 3 model, regardless of whether the penalties are alternatives to criminal prosecution.

Who will enforce the policy?

A4.2.9 Government policy is that no new regulator should be created where an existing one can do the work. In particular, you should consider who will enforce the policy. Are there others who could help to enforce the policy? If you decide that active enforcement is required, you must involve the **potential enforcement authorities** at an early stage and describe this in the IA. If local authority regulatory services are to enforce the new policy you must contact the [Local Better Regulation Office](#).

A4.2.10 If you propose creating a **new** enforcement body, make sure that you are clear as to why an existing agency would not be able to carry out enforcement of the new proposals. The activities of a new body will also need to be integrated properly with those of any existing agencies. Consider issues such as recruitment and training of staff. You will need to ensure that the proposal follows the principles and criteria set out in the BRE's guidance on setting up new regulators. You will also need approval from HM Treasury and the BRE.

A4.2.11 It is important that whichever body is responsible for enforcement will act in line with the five principles of good regulation – i.e. in a way that is consistent, proportionate, accountable, transparent and targeted only at cases in which action is needed. This is a requirement of the RES Act and Departments should apply the same criteria to regulators whenever new, non-RES Act civil sanctioning powers are to be conferred upon them. Departments should also ensure that their regulatory bodies are brought within the scope of the Regulators' [Compliance Code](#), if they are not already covered by it, so as to

ensure that that they enforce Regulations in accordance with the best practice standards set out in the code.

[Back to contents](#)

Annex 5: SPECIFIC IMPACT TESTS

The following section introduces the individual impact tests in the check list and provides links to the departmental guidance.

A5.1 Statutory Equality Duties Guidance

A5.1.1 Under equality legislation, public authorities have legal duties to have 'due regard' to the need to eliminate discrimination and promote equality with regard to race, disability and gender, including gender reassignment, as well as to promote good race relations. In the Equality Act 2010, these three duties are harmonised into one, and also extend the scope to cover protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. This new integrated duty comes into effect in April 2011. The general equality duty will be supported by a set of specific duties which will help listed public bodies in better performance of the duty. These will differ slightly between England, Wales and Scotland and guidance on requirements will be available on the website of the [Equality and Human Rights Commission](#).

A5.1.2 The law requires that the public sector equality duty be demonstrated in the decision making process. Assessing the potential equality impact of proposed changes to policies, procedures and practices is one of the key ways in which public authorities show 'due regard'.

A5.1.3 A policy, decision or a service delivery initiative should be assessed for its impact on equality if it is relevant to equality, with the most relevant policies assessed first and most thoroughly. This involves systematically assessing the likely (or actual) effects of policies, looking for opportunities to promote equality as well as negative or adverse impacts. If any negative or adverse impacts amount to unlawful discrimination or harassment, they must be removed. An equalities assessment must be carried out. Where this assessment is done as part of a wider Impact Assessment, it must be to the same level of detail as a standalone assessment of equality impact.

[The Equality and Human Rights Commission Guidance](#) offers a step by step approach to integrating assessment into the day to day business of the organisation. In preparation for the new duty, the guidance addresses all equality mandates.

A5.2 Competition Assessment

A5.2.1 Many Government policies affect the scope and nature of competition between firms. Where a policy restricts competition, this can be

expected to lead to an Economic Cost. Conversely, some policies – such as removing Regulations – can stimulate greater competition and economic benefits. The [Competition Assessment](#) is designed to identify these costs and benefits, and ensure they are taken into account in the overall IA. This assessment also seeks to help the design of policy proposals in a way that meets policy objectives, without unduly limiting or damaging competition in markets.

A5.3 Small Firms Impact Test

A5.3.1 The **small firms impact test** becomes a mandatory part of the IA process when your proposal imposes or reduces costs on business. It has two main stages:

- Stage 1 – starting the small firms impact test; and
- Stage 2 – identifying and exploring more fully the potential to minimise the impact of the requirements on small firms e.g. exemptions, simplified inspection, less frequent reporting etc. for businesses with fewer than 20 employees.

A5.3.2 Full guidance on this test, available at [Small Firms Impact Test](#). This test can also help officials complete the cost benefit analysis part of the IA template. You should contact BIS’s Enterprise Directorate at the earliest stages of policy development if your proposal is likely to have a significant impact on small businesses on 020 7215 6032 or e-mail regulation@bis.gsi.gov.uk. Enterprise Directorate can offer you assistance and advice on completing this test.

A5.4 Greenhouse Gas Impact Assessment

A5.4.1 Since 2003, the Government has committed itself to making Greenhouse Gas Impact Assessments an integral part of assessing environmental impacts. The Department of Energy and Climate Change has upon its creation taken over responsibility of tracking greenhouse gas emissions. The carbon budgets team (contact: CarbonImpactAssessmentReporting@DECC.gsi.gov.uk) can provide guidance whether a greenhouse gas impact assessment is not required (e.g. if there is a clear case that there will be no impact on emissions or the impact will be minimal).

A5.4.2 Any net impacts on greenhouse gas emissions (i.e. reductions or increases in emissions, reported as carbon dioxide equivalents) over the lifetime of the policy should be split by sectors (traded vs. non-traded) and entered into the relevant box of the ‘Summary: Analysis and Evidence’ page.

What is the CO ₂ equivalent change in greenhouse gas emissions?	Traded:	Non-traded:
--	----------------	--------------------

- A5.4.3 These emission changes need to be monetised and factored into the cost and benefit analysis.
- A5.4.4 [Technical guidance](#) can be found in the guidance on valuation of energy use and greenhouse gas emissions for appraisal and evaluation.
- A5.4.5 The guidance toolkit enables analysts to establish the monetary impacts of changes to greenhouse gas emissions by entering the annual changes of energy consumption (again increases and decreases are relevant).
- A5.4.6 It also allows for the assessment of the proportion of emission reductions that are achieved cost-effectively under PSA 27 indicator 6 (see Chapter 4 of the guidance). This indicator should be entered into the emission table attached to the evidence base of the IA Template, together with the information on annual emission changes.
- A5.4.7 Since this information is required for tracking progress in meeting ‘Carbon Budgets’ it is important to make it available via the IA and to send the table to the carbon budgets team (CarbonImpactAssessmentReporting@DECC.gsi.gov.uk).
- A5.4.8 Analysts only need to populate the annual emission changes (savings as a positive number, increases as a negative number), the changes per carbon budget period will be automatically calculated. The table can be extended should the policy under consideration impact greenhouse gas emission beyond 2050.

A5.5 Wider Environmental Impact Test

- A5.5.1 The purpose of the ‘Wider Environmental Impact Test’ is to enable Departments to understand and quantify, where possible in monetary terms, the environmental consequences of their proposals. The test refers to all environmental impacts apart from carbon, for which separate guidance is available (see above).
- A5.5.2 As part of this test, a checklist is provided as a starting point. This is to ensure you have identified where policy options have significant wider environmental impacts (above and beyond any effects on greenhouse gas emissions). The range of potential impacts can be wide ranging, including impacts on air quality, water quality and quantity, flood risk, biodiversity, landscape and noise. Identification of potentially significant environmental impacts at an early stage in policy development will facilitate a process of exploration of options to evaluate and reduce any negative impacts and enhance any positive impacts on the environment. Consideration and exploration of these issues will help to ensure policies are in keeping with the principles of

sustainable development.

- A5.5.3 Where policy options are identified as resulting in potential environmental impacts, the checklist and associated guidance identifies where further analysis is required and provides up-to-date guidance on how to go about assessing, quantifying and valuing any environmental changes. In cases where it is identified that the environmental impacts could be significant and wide ranging, affecting multiple environmental attributes and resulting in potentially significant effects on economic values (including market and non market values), the use of an ecosystem services framework is the recommended approach for analysis. Ecosystem services are defined as services provided by the natural environment that benefit people. The framework offers a more comprehensive approach to understanding how policies impact on the wider environment.
- A5.5.4 Full guidance on taking account of wider environmental impacts in policy appraisal is available on [Defra's website](#) and is updated as and when new information is available. Economists in the Natural Environment Economics Team at Defra can offer general advice and support on this guidance. Please e-mail nee@defra.gsi.gov.uk.

A5.6 Health and Well Being

- A5.6.1 The health impact assessment considers the effects policies, plans, programmes and projects have on health and well-being, and in particular, how they can reduce health inequalities. Non-health sector policies and projects, where health is not a primary objective, may have major implications on the health and well-being of people. This test can ensure that the health and well-being of people likely to be affected by such policies and projects is maintained or enhanced. Screening questions for health and well-being can be found from the [Department of Health: Health IA](#).

A5.7 Human Rights

- A5.7.1 Will the proposals have **Human Rights** implications? Further details can be found at [Ministry of Justice: Human Rights](#).

A5.8 Justice Impact Test

- A5.8.1 The [justice impact test](#) considers the impact of the Government's policy and legislative proposals on the justice system (civil and criminal) – including impacts on the courts, tribunals, prisons and probation, legal aid, the prosecuting bodies and the judiciary. It is intended to help policy makers take a systematic look at the impact of their initiatives on the justice system by quantifying the cost and considering the operational implications of their proposals, in order to

get the best outcomes for users of, and those operating within, the justice system. Where there is an impact on the justice system, the additional cost must be properly funded and will be subject to negotiation between finance departments. The presumption is that the Department responsible will be expected to cover the additional costs.

A5.9 Rural Proofing

- A5.9.1 The Government is firmly committed to ensuring that all domestic policies and programmes take account of the circumstances and needs of rural people and places. Rural places (basically defined as places with communities of fewer than 10,000 people) make up 86% of the country and are home to 20% of the population.
- A5.9.2 Across the whole country people rightly expect high quality services that meet their needs, and it is the job of policy-makers to design policies that are capable of delivering these services equitably for everyone. However, communities in rural areas tend to be more dispersed and further from the main economic centres, and the ability of rural people to access services, e.g. via public transport or broadband information and communication technologies, cannot be taken for granted. Rural people also tend to be older than their urban counterparts (the median age in rural areas is nearly six years higher than in urban ones and the proportion of people over 60 is greater). The delivery of services in rural areas can, therefore, be problematic, and the challenges presented by the geography and demography of rural places needs to be factored into policy design at the outset, and checked at appropriate stages throughout the development and implementation phases.
- A5.9.3 Rural proofing is the tool by which this is achieved. It requires policy makers to consider key questions on how any policy may affect rural people, businesses and communities. Specifically, it requires policy-makers to:
- consider whether the policies they are developing will have any impacts on rural areas;
 - assess the significance of those impacts; and
 - where appropriate, adjust the policy to address the needs of those who live in rural areas.
- A5.9.4 Defra’s Rural Policy Team and the Commission for Rural Communities are able to advise policy-makers in Departments on the likelihood and possible scale of rural impacts, and suggest actions that might be taken to mitigate these. They cannot, however, do the rural proofing for Government colleagues. A detailed [Rural Proofing Toolkit](#) has been produced which can be used as part of the rural Specific Impact Test.

A5.10 Sustainable Development Impact Test

Sustainable development

A5.10.1 The Government is committed to sustainable development – essentially that the current generation satisfies its basic needs and enjoys an improving quality of life without compromising the position of future generations. This should be a central principle underpinning all policy development.

Purpose of the sustainable development impact test

A5.10.2 The role of the sustainable development Specific Impact Test is to reflect further on the conclusion of the IA (the balance of monetised and non-monetised costs and benefits) in order to determine whether there are compelling sustainability-related reasons to amend the policy, or to otherwise alter the conclusion of the IA.

Applying the test

A5.10.3 The sustainable development Specific Impact Test should be applied when first considering an issue and throughout the policy development process as appropriate. The test can help policy analysts to understand issues in a broader context and to identify the evidence required to appraise policy options

A5.10.4 The results of the test are also extremely important when putting advice to Ministers. The test can show Ministers whether or not the options are compatible with sustainable development.

Further help

A5.10.5 The detail of the [Sustainable Development Specific Impact Test](#) can be found on the Defra website along with an interactive policy tool and more information and guidance.

[Back to contents](#)

Annex 6: EU NEGOTIATIONS/PROPOSALS

A6.1 Producing UK IAs for EU proposals

- A6.1.1 You are required to carry out an IA on EU proposals that will have force in the UK or require implementation in the UK, as you are on the Government's own proposals. Once the Commission has adopted a proposal, you should produce an IA to inform the UK negotiating position. This should be attached to letters seeking cabinet committee clearance of the UK negotiating positions. You should try to keep the IA up-to-date throughout the EU legislative process, but in particular, when the European parliament and council make significant amendments to the Commission proposal. You are also required to submit an IA to the UK Parliament to accompany an explanatory memorandum on the proposal.
- A6.1.2 To make it easier to provide cabinet committee with an IA promptly once the Commission adopts proposals, you should try to:
- anticipate measures in the pipeline – be in regular contact with UKRep, Commission officials and other member states, and make use of Commission forward-looking documents;
 - analyse likely impacts – estimate ballpark costs, benefits and admin burdens of measures in the ‘Commission’s Legislative Work Programme’ to feed into formal IAs later down the line;
 - influence the Commission based on this analysis – lobby the Commission before proposals are adopted, with support from other member states and stakeholders where possible.

Baseline and policy options in IAs transposing EU legislation

- A6.1.3 Before going out for consultation on proposals for the transposition of EU obligations, an IA should be produced to inform the best approach to UK implementation. The policy options should comply with the ‘Guiding Principles for EU legislation’ and will not include ‘do nothing’ (i.e. not implementing the EU obligations). Rather, the IA should set out clearly the minimum required to implement in the UK the decision taken at EU level.¹⁷
- A6.1.4 The baseline, or counterfactual, for estimating the incremental costs and benefits of transposing EU legislation is a notional ‘do nothing’ scenario, in which no action is taken, though that is not a feasible option. You must include as an option the minimum required to implement the directive in the UK¹⁸. The marginal costs and benefits of all other options are those over and above the notional baseline of no change so they can be compared against the minimum implementation. For example, if minimum implementation of an EU

¹⁷ See the [appropriate baseline](#) for Impact Assessments for transposition of EU decisions.

¹⁸ See [genuine policy options](#) for Impact Assessments for transposition of EU decisions.

directive has an incremental cost of £100m (to what would have occurred if the directive were not implemented in the UK), compared with an alternative which could cost £110m, i.e. a further £10m over the minimum implementation option. The Guiding Principles for EU legislation state that copy out should always be used for transposition where it is available, except where doing so would adversely affect UK interests e.g. by putting UK businesses at a competitive disadvantage compared with their European Counterparts. Any proposal to go beyond copy out will need to be cleared before consultation with the RRC.

- A6.1.5 Infraction costs avoided through implementation of an EU directive should not be included as a benefit of the options considered. Similarly infraction costs that result from non-implementation should not be included in the notional 'do nothing' baseline. The risk of infraction should be dealt with in the risks section of the IA.
- A6.1.6 When analysing the impacts of implementing an EU directive you should assess impacts on the UK and present these in the IA template. However, it might be useful to include, in the evidence base, a comparison of the impact on the UK with impacts in other EU countries.
- A6.1.7 See interim guidance for transposition for more information as well as the Government's 'Transposition guide: how to implement European directives effectively' for more on the above or contact the [BRE's](#) Europe team.

A6.2 Using and influencing European Commission IAs

- A6.2.1 The Commission is committed to producing IAs for all significant proposals included in its Annual Legislative and Work Programme. (See [European Commission: the Commission's Work Programme](#). The Commission has comprehensive guidelines on what IAs should cover and how they should be carried out. (See [European Commission: IA Guidelines](#))
- A6.2.2 Commission IAs are a valuable evidence base for officials negotiating EU legislation. You should try to secure support from other member states and the presidency to discuss the Commission IA and the Commission Impact Assessment Board (IAB) opinion of the IA before the proposal itself is debated. The IAB is the Commission's internal watchdog that aims to provide independent quality control and support for Commission IAs. It checks draft IAs and makes recommendations for their improvement. If the IAB believes an IA has a serious weakness it can request resubmission. All IAB opinions are published alongside [Commission proposals and IAs](#).

- A6.2.3 If requested to do so by the Commission, you should consider sharing UK data on the likely impact of a proposal. In cases where you think that the Commission is not sufficiently aware of the impact of a potential proposal on the UK, you should consider taking the initiative to lobby the Commission directly to consider UK data.
- A6.2.4 Clarification should be sought from the Commission if its IA does not meet its own guidelines, particularly if it:
- lacks evidence of thorough consultation – see [Commission of the European Communities: guidelines on consultation](#);
 - fails to include viable options; or
 - does not include adequate quantification of effects.
- A6.2.5 You should make use of the UK IA when lobbying other Member States to win support for the UK position. It may be that you can alert them to potential outcomes which would affect them which the Commission IA has not identified. You should also consider using the analysis in your IA to brief relevant Members of the European parliament on the impacts of their decisions.
- A6.2.6 The European council and parliament have committed themselves to carrying out IAs on substantive amendments to Commission proposals. You should consider trying to secure support from other member states and MEPs for the European council and parliament to prepare IAs to inform major amendments, especially in instances where these could have potential unintended consequences.

Annex 7: FRONT LINE PUBLIC SERVICES

A7.1 Overview

A7.1.1 It is important to demonstrate that the impact of a regulatory proposal on frontline public services has been mitigated as far as possible and any remaining burden is justified and proportionate in relation to the time spent delivering service outcomes. This should be shown in the 'Evidence Base' section of the IA.

A7.1.2 An IA is required if the proposal:

- imposes a new information obligation or removes an existing information obligation on the public sector frontline including the frontline of all bodies that deliver public services; or
- in the absence of imposing any information obligation, introduces any other Administrative Burdens or unfunded Policy Costs of £5 million or more (in any given year) on the public sector or bodies that deliver public services, or, which are likely to attract high levels of political or media interest.

Note: For the public sector, if a regulatory proposal is likely to add upward pressure to Council Tax, a 'New Burdens Assessment' must be completed in addition to an IA. For more information please contact the Department of Communities and Local Government.

A7.2 How Costs Should be Calculated

A7.2.1 Regulatory costs for the public sector should be calculated as normal and be made explicit alongside other costs to business.

A7.2.2 The cost of Administrative Burdens or information obligations should be calculated using the [Standard Cost Model](#) or equivalent.

A7.2.3 Costs should be clearly stated within the evidence base supporting the IA (see also [Chapter 5](#)) and highlighted in the boxes representing 'main affected groups' in the IA Template.

A7.3 How to Demonstrate a Burden has been Mitigated

A7.3.1 Demonstrate there has been meaningful early engagement of the front line in the development of ideas and solutions, following better policy making principles.

A7.3.2 Demonstrate that any new regulatory proposal has been considered in the context of the total cumulative burden of Regulation on the relevant front line workers.

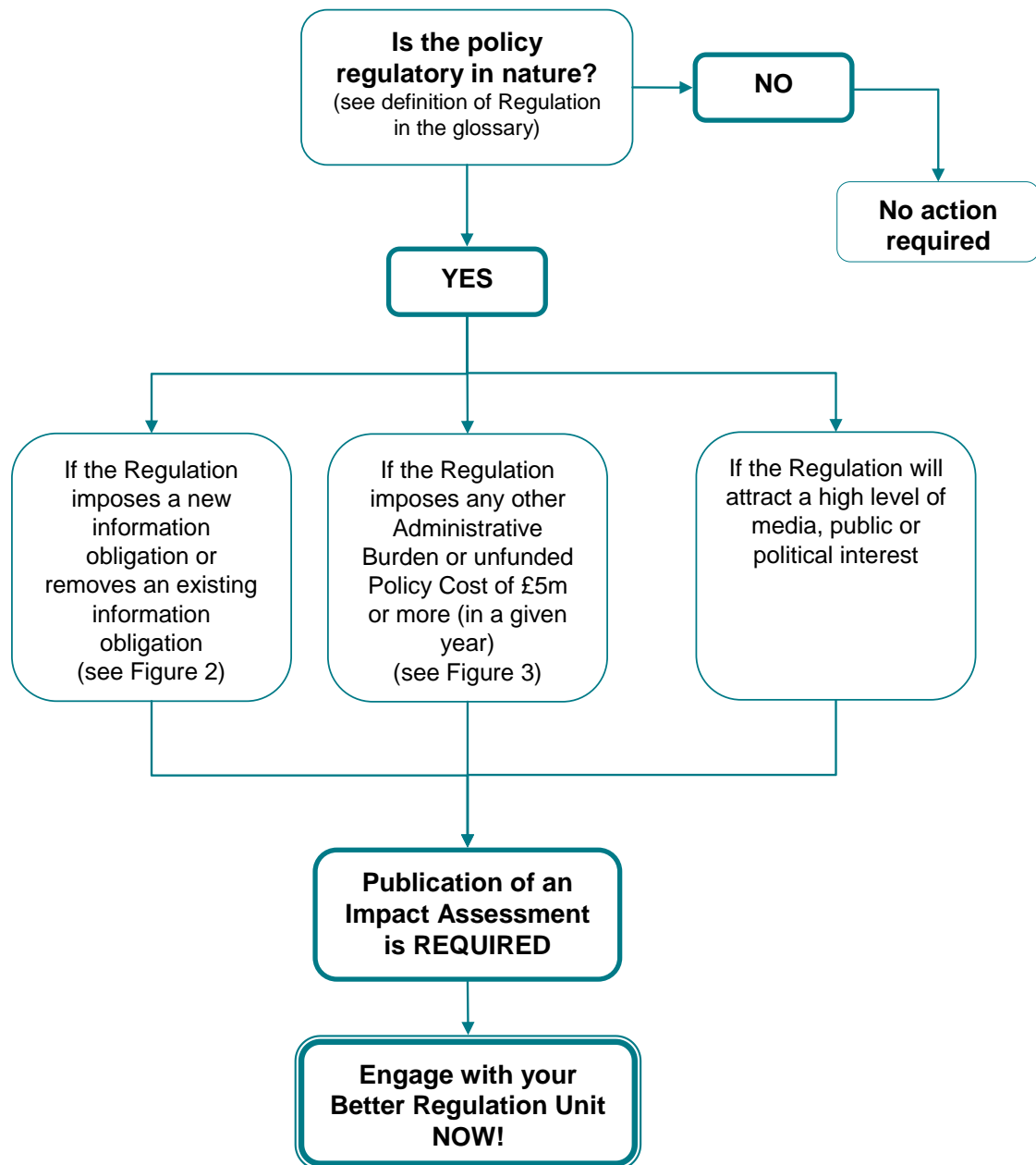
A7.3.3 Demonstrate that alternative options to regulatory proposals have been thoroughly explored and any preferred option mitigates costs and burdens in the most effective way.

A7.4 Differentiating Performance Management Burden and Regulation

A7.4.1 There can be a fine line between what is considered regulatory and what is considered to be performance management burden. Performance management can cover areas of hard and soft law as well as encompass information requests required for day to day service management purposes i.e. non-regulatory in nature. As with the private and third sectors, primary and secondary legislation both impact the public sector. Primary legislation is regarded as Regulatory but not all secondary legislation imposes a burden. For example, improvements to curriculum teaching or courts administration are both required to be introduced by Statutory Instrument but are, in reality, a means to improve the day to day delivery of the service rather than Regulation. Similarly, 'soft' law such as guidance, advice, best practice, codes of practice, central reporting, memoranda of understanding, performance/target reporting can often be part of the day to day management of services and are therefore not always regulatory in nature, but might include a new information obligation on the front line.

A7.4.2 Importantly, because operational contexts can vary across departments, a pragmatic approach may be necessary. If you are unclear, check with your departmental Better Regulation Unit, which is supported by the BRE.

A7.5 When Public Sector Regulatory Costs Required for an IA



Helpful examples as a guide

Figure 2: Examples of Information Obligations

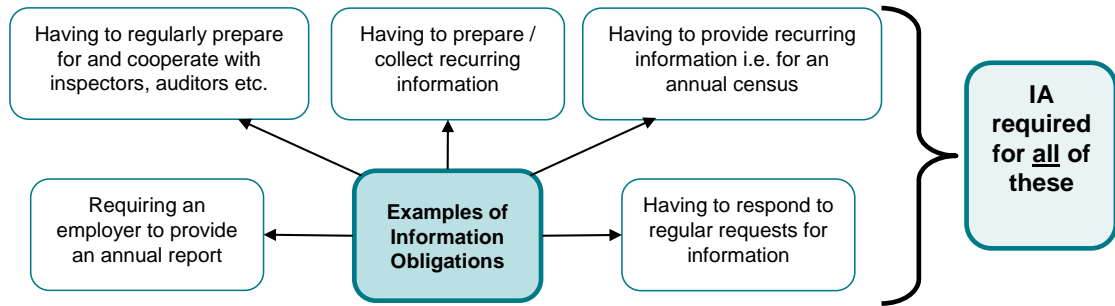
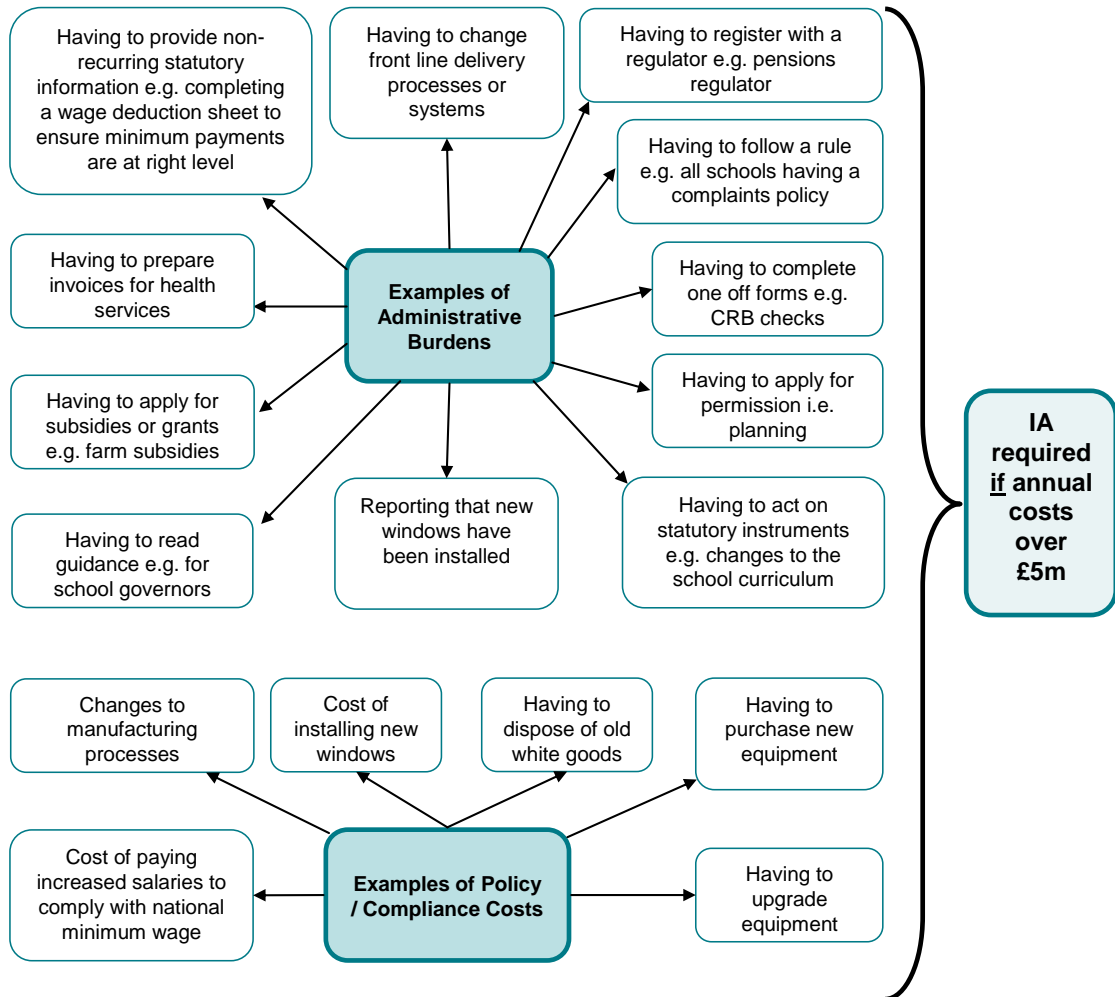


Figure 3: Administrative Burdens and Policy / Compliance Costs



Annex 8: OTHER ISSUES IN POLICY DEVELOPMENT

A8.1 Non-Departmental Public Bodies

- A8.1.1 While Departments should follow the guidance and the IA Toolkit when they prepare IAs, other bodies such as Executive Agencies and regulators that make Regulations in relation to their statutory and other responsibilities are also encouraged to complete IAs, adapted to their circumstances where this is appropriate.
- A8.1.2 Some Executive Agencies have a specialist focus, or must regulate in compliance with a statutory responsibility. For example, IAs produced by the Civil Aviation Authority primarily consider aviation safety, OFCOM considers matters under the Communication Act.
- A8.1.3 There can be limits to the extent that generalised cost benefit analysis can be applied to such issues. Regulators should continue to exercise their professional judgment on appropriate adaptations to the IA process. In all such cases, the spirit of the IA process should be followed. Queries should be directed here towards the BRE.
- A8.1.4 Non-departmental public bodies will wish to consider how they can assure the quality of their IAs. This may include a contribution from their chief economist or analyst, or the Chief Economist within the sponsoring Department, which summarises the key findings of the IA and confirms their validity.

A8.2 Supply Chain Analysis

- A8.2.1 Examining and articulating the opportunities and challenges in the supply chain as part of policy-making is good practice. It recognises that government action can shape markets directly or indirectly through the levers it uses including, regulation or alternatives.
- A8.2.2 Analysing the impact of a proposal in the supply chain will help tailor policy to encourage an effective response from business and identify business opportunities that support UK industrial capability and growth. Supply chain analysis does the following:
- ensures government has a thorough understanding of markets, enabling it to act more strategically and at an early-stage of the policy-making process;
 - means officials can better understand strengths and weaknesses in UK-based supply chains;
 - means officials can better understand the impact policy has on businesses; and
 - gives officials a range of available policy options that identify business opportunities.

A8.2.3 Supply chain analysis may be taking into account in policy making by:

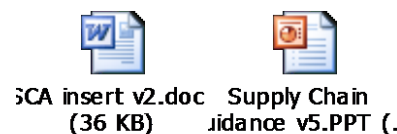
- considering the business impacts of policy proposals;
- considering where potential business opportunities may exist;
- assessing the barriers UK-based businesses face in competing for these opportunities¹⁹; and
- joining up any further government action to remove/reduce these barriers.

A8.2.4 Analysis may be undertaken when it is clear which discrete supply chain is being affected and where it is clear where the supply chain starts and stops. Supply chain analysis should be undertaken if a proposal involves any of the following:

- more than one Department;
- potentially significant²⁰ impact on business; and/or
- require engagement with business.

Understanding the impact of policy on business

A8.2.5 The following embedded documents provide more detail on: supply chain analysis; how government can aid business opportunities; and a supply chain analysis example, including the associated business opportunities identified.



Mapping supply chains

A8.2.6 Mapping the policy-relevant supply chains (in a proportional manner) will inform whether the policy options yield impacts on business and hence commercial opportunities. It is important to understand:

- the size of any barriers/knowledge gaps in the industry (the constraints to growth);
- how further action will improve the performance of UK companies and allow them to win more business;
- that the types of business opportunities identified can include: company revenue; company profits; industry gross value added;
- the impact of policy options on each stage of the supply chain;

¹⁹ Further information can be found in [OFT guidance](#).

²⁰ 'Significant' implies high impact in terms of a company's revenue or profits, or high impact in terms of significantly shaping growth in a market and the wider economy.

- the actions that the Government needs to take to develop UK-based capability.

A8.2.7 Engagement and discussion with business itself will be key to understanding the proposed policy options in terms of supply chain effects and possible business opportunities. Business will also be well placed to inform policy makers as to any barriers to realising these business opportunities and thus any remedial actions that can also be planned to remove these barriers.

A8.3 EU Services Directive/Provision of Services Regulations Text

Does your proposal have an impact on service providers?

A8.3.1 The impact of a proposal that affects the access to, or the exercise of, a service activity needs to be considered.

A8.3.2 You must check any new policy proposal in scope of the [Provision of Services Regulations 2009](#) that imposes a new or amended requirement (for example authorisation scheme, certification process, registration process, approval system, continuing requirement) on service providers to ensure that it is compliant with the Regulations. Failure to do so could lead to a successful legal challenge.

A8.3.3 You can adopt new legislation and requirements that are compliant with the Regulations but they must also be reported on via BIS to the Commission for their scrutiny. New authorisations and associated information will also need to be accessible remotely and electronically through the [Point of Single Contact](#). Legislation that cannot be justified under the terms of the Regulations or is in conflict with its requirements (for example if an application cannot be submitted electronically) must be amended or removed.

A8.3.4 For further information please consult the guidance [‘What to do if your work affects service businesses’](#). The guidance contains user friendly flowcharts that will guide you through the steps that you need to take, and point you to the sections of the guidance that you will need to look at. It includes:

- guidance on the scope of the Regulations;
- flowcharts to guide you through the process of checking new policies for compliance with the Regulations;
- reporting forms to inform the Commission via BIS of new requirements imposed on services providers;
- information on how to ensure that new schemes are accessible electronically;
- the legal basis for the above.

Annex 9: Evaluation

Evaluation and Post-Implementation Review

- A9.1 Policy evaluation is the assessment of the design, implementation and results of a project, programme or policy that is ongoing or completed. The assessment should be systematic and objective and should relate to specific evaluation criteria.
- A9.2 The PIR stage of IA is a form of evaluation, and should draw on the approaches, methods and practice of evaluation²¹. Please see relevant chapters in the main body of this IA Toolkit for further information on PIR.

The Magenta Book

- A9.3 The [Magenta Book](#) sets out the approach to evaluation in the Government. The Magenta Book is currently being revised and updated. This annex will be expanded once the new version is finalised.

Why evaluate?

- A9.4 Evaluation can answer questions about:
- the impact and effectiveness of the policy, including cost effectiveness (did it meet its objectives?);
 - how and why the policy was effective or not;
 - whether there were any unintended consequences of the policy?; and
 - what lessons can be learned about implementation.

Carrying out an evaluation

- A9.5 Good evaluation will:
- be planned early in the process of policy development, so that salient information to inform the evaluation can be collected;
 - have clearly defined parameters and research questions;
 - use methods appropriate to the questions to be answered;
 - take account of the context in which an intervention takes place;
 - make proportionate use of resources;
 - produce findings that aid decision making in the policy area;
 - add to the evidence base for future policy development.

²¹ For further detail see *Clarifying the relationship between Policy Evaluation, Post-Legislative Scrutiny and Post-Implementation Review, Better Regulation Executive*, March 2010.

Annex 10: CONTACT DETAILS

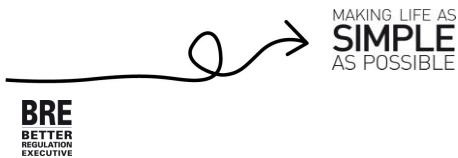
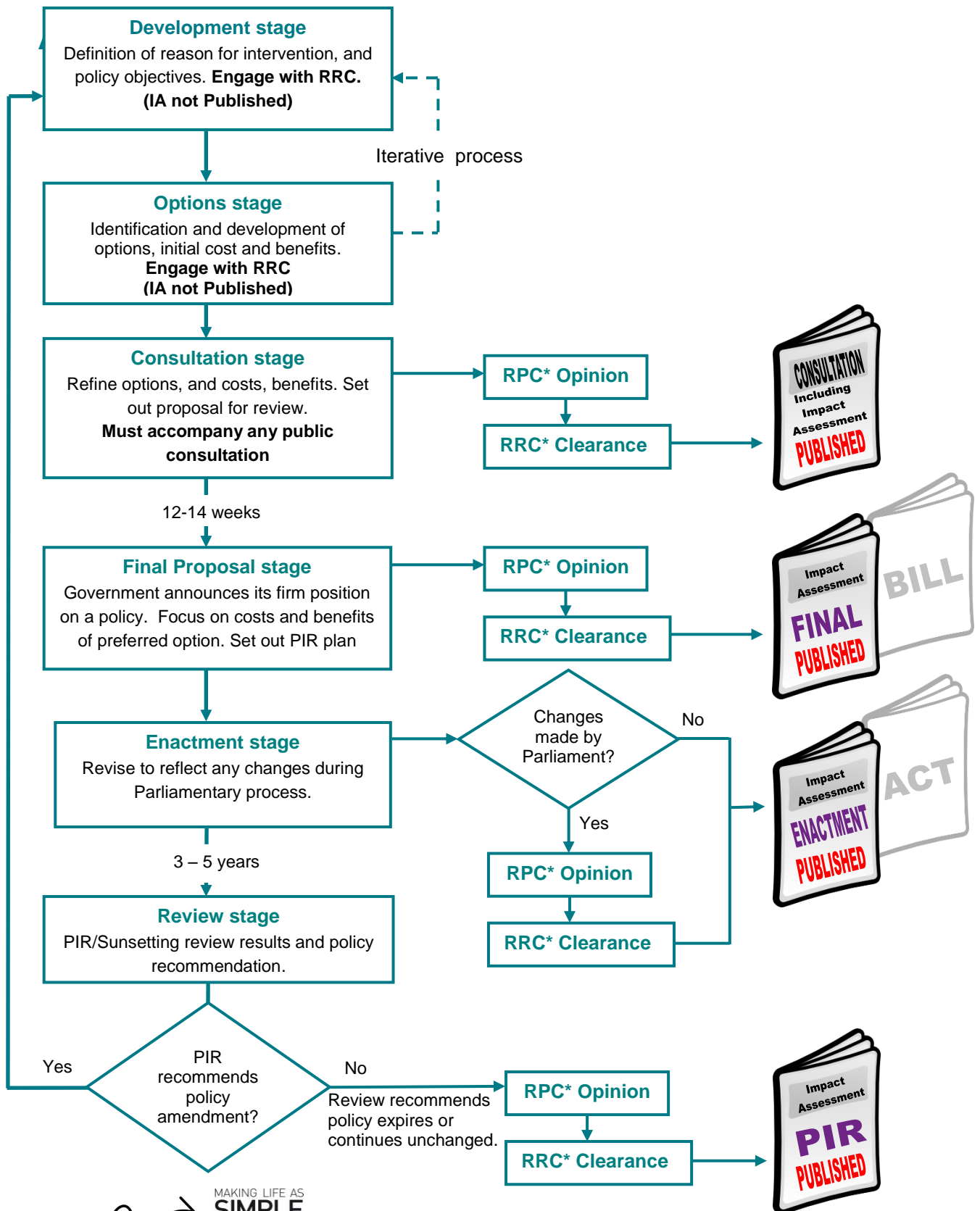
- **Better Regulation Executive**
The BRE's role is to work with Departments and regulators to help ensure that Regulations and policy proposals are fair and effective.

Department for Business Innovation and Skills
3rd Floor
1 Victoria Street
London SW1H 0ET
Email: breadmin@berr.gsi.gov.uk
Telephone: 0200 7215 5000
- **Cabinet Office European Secretariat**
The Cabinet Office European Secretariat produces information and guidance on different EU decision making procedures.

70 Whitehall
London
SW1A 2AS
Telephone: 020 7276 0086
- **Departmental Better Regulation Units**
Your first port of call for further advice on IA issues in this guide should be your BRU contact whose job it is to establish and promote the principles of good regulation and better policy making in your Department.
- **Cabinet Office Economic and Domestic Secretariat**
The Cabinet Office Economic and Domestic Secretariat produces information and guidance on policy making procedures.

70 Whitehall,
London
SW1A 2AS
Telephone: 020 7276 0083
- **Regulatory Policy Committee**
Secretariat to the Regulatory Policy Committee
1 Victoria Street
London, SW1H 0ET

Annex 11: IMPACT ASSESSMENT FLOWCHART



*Regulatory Policy Committee (RPC)
*Reducing Regulation Committee (RRC)

GLOSSARY OF DEFINED TERMS AND ACRONYMS

Act of Parliament or Act: A statute enacted as primary legislation by Parliament.

Administrative Burdens: (often referred to as red tape) Include costs associated with familiarisation with administrative requirements, record keeping and reporting, including inspection and enforcement of Regulation.

Best Estimate: This will be the most likely point in the range.

BRE or Better Regulation Executive: Part of BIS and leads the regulatory reform agenda across the Government.

Better Regulation Unit: Departmental team which establishes and promotes the principles of good regulation and better policy making, working with the Better Regulation Executive.

Bill: A draft Act of Parliament.

BIS: The Department for Business Innovation and Skills.

Chief Economists: A Department's lead economist.

Common Commencement Dates: Refers to the Government commitment that Westminster based Regulation bearing on business will be commenced only on either 6 April or 1 October of any year, subject to limited exceptions.

Department: Government department and agencies.

Discount Rate: The annual percentage rate at which the Present Value of a future pound, or other unit of account, is assumed to fall away through time.

Economic Cost (or Opportunity Cost): The value of the most valuable of alternative uses.

Commission: The European Commission.

Executive Agencies: Part of a Department that is treated as managerially and budgetarily separate in order to carry out some part of the executive functions of the Government.

Gold-Plating: Implementation of an EU directive that goes beyond the minimum requirements necessary to comply with the directive.

Government: Government of the United Kingdom.

Green Book: HM Treasury guidance for Government, setting out a framework for the appraisal and evaluation of all policies, programmes and projects.

IA or Impact Assessment: Both a continuous process to help the policy-maker fully think through and understand the consequences of possible and actual Government interventions in the public, private and third sectors; and a tool to enable the Government to weigh and present the relevant evidence on the positive and negative effects of such interventions, including by reviewing the impact of policies after they have been implemented.

IA Guidance: Document setting out the Government's policy on the scope and process of IAs. It explains what an IA is, the types of intervention for which an IA is required, and when an IA must be prepared and published.

IA Template: Standard template which anyone creating an IA should follow.

IA Toolkit: Step-by-step guidance on how to complete an IA.

IN: Where a new Regulation is being introduced, or an existing Regulation is being amended which will result in increased direct costs or reduced direct benefits to business.

Market Failure: An imperfection in the market mechanism that prevents the achievement of economic efficiency.

Minister: Minister responsible for the policy, or the chair or chief executive of non-ministerial Departments, non-departmental public bodies and other agencies.

NPV or Net Present Value: The discounted value of a stream of either future costs or benefits. The term NPV is used to describe the difference between the Present Value of a stream of costs and a stream of benefits.

OIOO or One-In, One-Out: A rule which means that no new primary or secondary UK legislation which imposes costs on business or civil society organisations can be brought in without the identification of existing Regulations with an equivalent value that can be removed. Regulation which is required to implement EU obligations and public sector are not within the scope of OIOO at this time.

Opportunity Cost (or Economic Cost): The value of the most valuable of alternative uses.

OUT: Where, as a result of removing or recasting a Regulation, the following calculation results in a negative cost figure: the direct net benefit to business less the sum of any loss in direct economic benefit to business and the direct Economic Cost to business of implementing the change.

Parliament: Parliament of the United Kingdom.

Policy Costs: The essential costs of meeting or complying with the policy objectives and includes all costs which are not Administrative Burdens. These

may include the additional costs involved in purchasing new equipment, maintaining the equipment and undertaking specified training in order to meet the Government's regulatory requirements.

PIR or Post-Implementation Review: Establishes whether implemented Regulations are having the intended effect and whether they are implementing policy objectives efficiently.

Post-Legislative Scrutiny: Government process to promote a more systematic approach to ensuring that, once an act has been passed, sufficient attention is paid to whether it has been well implemented and to its actual effects.

Private Member's Bill: Any Bill introduced by members of Parliament and the House of Lords who are not Ministers.

PV or Present Value: The future value expressed in present terms by means of discounting.

Quick Start Guide: Provides details of how install the IA Template correctly and gives a quick, at a glance view of using and completing an IA.

Regulation: A rule with which failure to comply would result in coming into conflict with the law or being ineligible for funding and other applied for schemes. This includes: EU regulations; Acts of Parliament; Statutory Instruments; rules, orders, schemes, regulations etc. made under statutory powers by Ministers or agencies; licences and permits issued under Government authority; codes of practice with statutory force; guidance with statutory force; codes of practice, guidance, self-regulation, partnership agreements with Government backing; approved codes of practice; bye-laws made by Government.

RPC or Regulatory Policy Committee: Established in 2009, tasked with providing independent, wide-ranging, and real-time scrutiny of proposed regulatory measures put forward by the Government.

RRC or Reducing Regulation Committee: A cabinet sub-committee established to take strategic oversight of the delivery of the Government's regulatory framework. It has broad terms of reference to consider issues relating to regulation. This will include scrutinising, challenging and approving all new regulatory proposals.

Sensitivity Analysis: Analysis of the effects on an appraisal of varying the projected values of important variables.

Specific Impact Tests: A range of tests to ensure that policy development is joined up and that individual policy proposals take account of a number of broad policy objectives.

SCM or Standard Cost Model: Provides a framework for measuring the Administrative Burdens of Regulation.

Statutory Instrument: The form in which secondary legislation is made in the United Kingdom.

Tax Impact Assessment: Tailored IA used to understand the wide range of impacts associated with tax policy options to inform decision making.